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GENERAL AGRICULTURAL EXPORT AND TRADE SITUATION

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BEFORE THE

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HOUSE OF REPRESENTATIVES

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CONTENTS

Page

de la Garza, Hon. E, a Representative in Congress from the State of Texas, opening remarks ... 1
Prepared statement ... 97
Wampler, Hon. William C., a Representative in Congress from the State of Virginia, opening remarks ... 3
Prepared statement ... 101

WITNESSES

Block, John R., Secretary, U.S. Department of Agriculture ... 4
Prepared statement ... 111
Brock, Ambassador William E., III, U.S. Trade Representative ... 9
Prepared statement ... 122
Brown, Reagan, commissioner, Texas Department of Agriculture; representing National Association of State Departments of Agriculture ... 51
Dennin, Joseph F., Deputy Assistant Secretary of Commerce for Africa, Near East, and South Asia ... 12
Prepared statement ... 140
Heron, Julian B., Jr., partner, Heron, Haggart, Ford, Burchette and Ruckert, Washington, D.C. ... 66
Prepared statement ... 152
Hormats, Robert D., Assistant Secretary of State for Economic and Business Affairs ... 10
Prepared statement ... 127
Thone, Charles, Governor, State of Nebraska; represented by Joseph A. Kinney, staff director, Committee on Agriculture, National Governors' Association ... 64
Prepared statement ... 146

SUBMITTED MATERIAL

Davis, Ron, executive vice president, Colonial Beef Co., prepared statement ... 195
Findley, Hon. Paul, a Representative in Congress from the State of Illinois, prepared statement ... 105
Hagedorn, Hon. Tom, a Representative in Congress from the State of Minnesota, prepared statement ... 107
Hughes, William D., president, King Meat Packing Co., prepared statement ... 194
Komori, Dr. Kunio, North American representative, LIPC, Denver, Colo., prepared statement, Colorado Cattle Feeders Association's American Cattle Conference, January 16, 1982 ... 176
Responses to questions submitted by Hon. E (Kika) de la Garza:
  Block, John R., Secretary, U.S. Department of Agriculture ... 72
  Macdonald, David R., Deputy U.S. Trade Representative ... 198
  Moore, Powell A., Assistant Secretary for Congressional Relations, Department of State ... 204
United States Meat Export Federation, prepared statement ... 166

GENERAL AGRICULTURAL EXPORT AND TRADE SITUATION

TUESDAY, MARCH 9, 1982

House of Representatives,
Committee on Agriculture,
Washington, D.C.

The committee met, pursuant to notice, at 9:40 a.m., in room 1301, Longworth House Office Building, Hon. E de la Garza (chairman of the committee) presiding.

Present: Representatives Jones of Tennessee, Brown, Bowen, Richmond, Harkin, Bedell, Huckaby, Coelho, Daschle, Stenholm, Volkmer, Hatcher, Dorgan, Albosta, Wampler, Findley, Hagedorn, Coleman, Hopkins, Hansen, Roberts of Kansas, Emerson, Napier, Skeen, Morrison, Roberts of South Dakota, Gunderson, Evans, and Chappie.

Staff present: Robert M. Bor, chief counsel; Robert T. Lowerre, associate counsel; John E. Hogan, minority counsel; Peggy Pecore, clerk; John Bailey, Charles Benbrook, Bernard Brenner, Richard Fritz, Floyd Gaibler, Gerald R. Jorgensen, Linda Miller, Gene Moos, and James Tippett.

OPENING REMARKS OF HON. E de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order. The committee meets this morning on our oversight functions to discuss the general agricultural situation regarding export and trade.

We have invited the distinguished Secretary of Agriculture and the Trade Representative, and we have requested participation of the Secretary of State.

We are informed that the Assistant Secretary Hormats will be here to represent the State Department. We also will have, I understand, Mr. Anderson, Associate Administrator for Trade Policy for the Foreign Agricultural Service, and Mr. Novotny, Director of the Grain and Feed Division, who will participate in the discussions.

We meet at a time in the economic aspects as relates to the United States and we meet at a very critical time in the foreign policy political aspect in the history of the United States. We meet at a very critical time as relates to the supplies of food for man and animal throughout the world.

The economic aspects—well, that's just one of the areas that we wish to address this morning. This also relates to trade to the extent that we can assist our friends and neighbors and I know that the new Caribbean Basin Initiative will be discussed this morning or at least there will be some questions that will be asked.

Then our continuing interest in seeing that we provide to the extent that we are available as to assistance to hungry people, not only in the United States but throughout the world in the overall fixed picture on the economic side; we can see that the people throughout the world, individually and collectively as governments and as organizations or communities of governments, that they aren't buying what we manufacture in the United States at all.

They are not buying our cars. They are not buying our refrigerators. They are not buying our calculators, radios or television sets. They are buying only what we produce, and that is basically why 3 percent—well, that is 3 percent of our population, that is what this produces. There is no question of quality.

We have quality that far surpasses any in the world. There is no question of production capability with our technology and with our farmers. Even notwithstanding the weather, we are still able to produce in sufficient quantities to export.

The problem is that there are artificial barriers that are raised in many countries of the world. To the extent that we are able to break into those markets, well, then we would like to address that issue.

There are still barriers within Government itself here that prohibits or inhibits the farmers to produce or to see abroad to our trading partners. Also, I would hope that we can discuss to the extent that the Government has assisted us because some of our suppliers are frustrated.

I had a visit with a gentleman in the meat export business, and he said:

> I went to Japan, and they told me why don't I open up an office in Japan. They told me why didn't I have the staff of people who spoke Japanese. Then they told me why didn't I hire staffing from Japan.

Now, every requisite that was mentioned as he thought was a prerequisite of selling in Japan that be met in the end, they told him that he didn't have the necessary permits and this is one area that I would like to discuss later with the representative.

Well, he came to Washington and he went to the individual Member of Congress. He said, "I think that this is a matter that should be addressed by the trade representative." As the gentleman told me, he said, "I didn't know that we even had a trade representative, but apparently there, they don't see people that come off the street with a problem." So there, he hit a wall.

Then someone told him that this is a State Department function. Apparently, at the State Department also you don't come off the street as a businessman, but as a citizen and visit them about a problem. Then he went to somewhere in Agriculture. He was advised that this was an issue that was well better handled by the trade representative.

So he came back to his Congressman, and he said, "Where in the hell do I go?" This we would like to address and to see somehow, if we could coordinate that aspect of this, there is another area, of course, and I don't say this in any other way except that within the administration—and I don't use this in a partisan way—but in the executive at any given day, a member may give a different interpretation to the desire and the ability to sell abroad.

That is why we wanted all three segments here to see if the State Department and the trade representative, their office, and Agriculture, and to what extent that you are in unison and are working together to send the same message throughout the world. Hopefully, that might give you, Mr. Secretary, a little rundown of some of the areas of interest.

I know many of the members may have specific questions in other areas, but basically that is what we are interested in. I recognize Mr. Wampler.

I have a prepared statement which I will submit for the record and if there are no objections, any other members who wish to do so may also submit a prepared statement.

[The prepared statement of Mr. de la Garza appears at the conclusion of the hearing.]

Mr. **Wampler**. I do have a prepared statement. I ask unanimous consent that it be inserted in the record.

The **Chairman**. Without objection, it will be inserted.

[The prepared statement of Mr. Wampler appears at the conclusion of the hearing.]

OPENING REMARKS OF HON. WILLIAM C. WAMPLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. **Wampler**. I would like to welcome the Secretary and his colleagues here. Mr. Chairman, I and my colleagues on this side of the committee on two occasions in recent weeks urged President Reagan and the Secretary of Agriculture, John Block, to explore the various agriculture trade expansion options as a way to improve the current farm situation.

I am sure, Mr. Chairman, that you and other members of this committee are equally concerned about the plight of our farm economy. My Republican colleagues and I suggested several specific courses of action for trade expansion which we hope will be addressed by the administration during the course of this hearing.

These courses of action involve funding of the agricultural export credit revolving fund authorized by the 1981 farm act, implementation of immediate credit authorized under the 1978 trade act for market development facilities in importing nations' use of export-import block funds to agriculture trade expansion and continuation of attempts to remove unnecessary tariff and nontariff barriers for U.S. exports.

I want to compliment you, Mr. Chairman, for calling this hearing today because I know that you know how important our farm exports are to this country. I want to make one final observation on the importance of farm exports, not just to farmers but to all Americans. Those exports are the part of our phenomenal farm production that is needed here in the United States but that higher level of output enables the farmer to operate at peak efficiency and thus lower his cost per unit of production.

Thus, the higher level of production tends to hold down food prices in this country. Exports, therefore, help make it possible for American farmers to be so productive that the U.S. consumers pay comparably less for food than people in almost any other country in the world. And maintaining a high level of agricultural exports can do much to help our Nation's economic recovery.

I am hopeful that this hearing and subsequent actions by the administration will point the way to expanding our inflation-fighting farm exports.

Mr. Chairman, I am confident that the administration officials have a positive story on the expansion of agricultural products and I am anxious to hear what they promise our Nation's farmers and producers in the way of new initiatives and plans for even greater expansion of agriculture exports.

I would expect that the private sector involving agricultural exports will come forth with their ideas on how to expand such exports either next week or perhaps at a later date.

Mr. Chairman, as you recall, a number of us had the pleasure this morning of having breakfast with the officers and directors of the American Farm Bureau Federation. I was pleased to learn that they have approved two trade commissions, one to Japan and one to the European Community in the effort to emphasize the need for expanding opportunities for agricultural exports.

I want to compliment them and others who had cooperated with the Department of Agriculture throughout the years because I think this is, indeed, very important at the present time.

Mr. Chairman, again, I want to thank you for calling these hearings. I look forward to hearing from our witnesses.

The CHAIRMAN. Secretary Block, I know that you have a time factor, so we welcome you. You are always welcome to this committee, and we appreciate your cooperation.

And in spite of some constraints from other areas, we are very happy to hear from you at this time.

STATEMENT OF JOHN R. BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary BLOCK. Thank you very much, Mr. Chairman. I am very pleased to have the chance to appear before this committee, and the issues at hand are important to all of us and of great importance to agriculture and to this Nation.

I have with me Mr. Anderson and Mr. Navotny to give me some assistance should the need arise.

I also would ask that my full statement be placed in the record.

The CHAIRMAN. Without objection, it will be inserted.

[The prepared statement of Secretary Block appears at the conclusion of the hearing.]

Secretary BLOCK. This administration shares your appreciation of the pressing need to export more agricultural products, not only for the benefit of the farm community but for the U.S. national economy, as well. We appreciate the support of this and other committees of Congress that they have given to the export expansion efforts.

Especially, I thank this committee for their efforts. We appreciate also individual efforts of those members who joined in presenting a united front against unfair trade practices to the officials of

European Community and against unfair trade barriers to our official friends from Japan.

We in the Department, with full administration support, are making a very intensive effort to overcome the obstacles to export growth for agricultural products.

As you know, substantial, sustainable export growth is essentially a long-term proposition. Sudden and dramatic gains are rare. President Reagan's lifting of the embargo on agricultural sales to the Soviet Union last April was a definite stimulus to exports. His decision on behalf of the American agriculture at that time opened the gate for sales to the Soviets of about 14 million tons of wheat and corn, 700,000 tons of soybean and lesser amounts of other farm products since the embargo was lifted.

This business is vitally needed by agriculture in this country. Unfortunately, it was preceded by heavy costs and lost farm income, the erosion of confidence in the United States as a supplier and increased competition in world markets, which was caused by the embargo that the President revoked.

The campaign to expand the export momentum has three primary thrusts. The first is direct personal approaches to new markets. The second is to pinpoint new market development planning and execution and, third, the concerted Government-wide effort to remove barriers to trade with U.S. agriculture's two largest customers—the European Community and Japan.

USDA studies show that the increase in competition since the embargo was invoked in 1980 may be the principal factor in limiting our exports of primary commodities this year. We are making a major effort to meet the competition head on.

We are well into a campaign to increase exports of grains and oil seeds by targeting for development emerging markets with growth potential and with a strong competitor presence. As a first step, we send a joint government-industry team to the target country. The first thing we do, or the team's job, is to identify the import needs and wants of the country and the problems of trade in that country. This is to find out what can be done to help them increase their imports of U.S. commodities.

Thus far, we have sent these market development teams, each of which includes producer representation, to 12 countries in Africa, Latin America and the Far East. I made three market expansion trips myself, including a joint mission with Secretary of Commerce Baldridge to West Africa.

Almost without exception, the reaction to the host country government and trade officials with whom the teams have met had been very positive. Their hosts have been pleased and, in most cases, surprised that the U.S. Government and the private agricultural sectors, are teaming up to better serve their import needs.

Already there have been some positive results. In China, for example, an agreement was reached for U.S. wheat, soybean, and feed grains cooperators to open offices there. Plans are also underway for the construction of a pilot flour mill and a demonstration noodle plant.

Elsewhere, during team visits, the Public Law 480 agreement for wheat sales to Morocco was signed. That was fairly recent. Export credit guarantees to Brazil were increased.

The real proof of this team approach will rely, of course, on the follow up market-to-market, and to the initial contacts. We are doing that, and we are confident that the result would be better trade servicing and credit and other aids tailored more specifically to growth potential as a consequence of better understanding of the market and the more precise market developing planning.

To get the most from what we have, it is absolutely necessary to know what countries and what commodities offer the best potential and what tools will do the best job.

Over the past 12 months, the Department has, in the Foreign Agricultural Service, developed a planning system to answer those questions in a quantifiable way. It involves computer technology and a whole host of ways of putting the system together.

Under the new planning system, commodity marketing specialists from Government and private trade and cooperator associations work together to analyze the constraints to the growth of U.S. commodities in each foreign market.

The result is a package of constraints export growth and ways to overcome them, and we want to overcome these impediments. From these, we can rank by priority the markets and activities from which to focus our resources, personnel, trade barrier removal, direct market development activities, and, of course, credit.

We also are paying special attention to increase the exports of value-added products, encouraging private industry to participate with help from State departments of agriculture. Exports of value-added products are now worth about $12 to $13 billion yearly.

Credit, both short- and long-term, has been important to agricultural market developments since Public Law 480 was enacted in 1954.

Today, of course, less than 5 percent of the U.S. exports are made on concessional terms. Credit continues to be important to the movement of commodities and to our export development.

As you know, the President last year authorized an increase of $500 million in authorizations for the Commodity Credit Corporation GSM 102 program for a short-term credit guarantee spread over fiscal years 1981 and 1982.

We have moved as quickly as possible to make sure that we use the total authorization of $2.5 billion for this fiscal year, and we've moved out as fast as we can. The credit guarantees last month covered a wide range of commodities for shipment to Portugal, Indonesia, Nigeria, Uruguay, which brought the commitments of the current year to $1.8 billion of the $ 2.5 billion.

The Congress made almost $700 million available for Public Law 480 concessional sales this year. Almost the full value of this has been allocated with a minimum reserve that is being held for some unforeseen needs. For the first time, a Public Law 480 agreement, the one signed with Egypt last month, was accompanied by a letter of intent from the recipient government, assuring a fair share of the commercial imports would come from the United States.

I think this is important to note. We are studying the possibility of applying similar assurances to our technical and scientific assistance programs in developing countries.

It doesn't make a lot of sense to me for us to be providing great amounts of money and credit and food products on concessional terms, and then when the country that buys these products decides to buy something with commercial money they turn around and buy it from France or someone else. I think this is unfair.

I think we are moving in a correct and fair direction, asking for fair treatment. We are especially concerned about excessive and growing use of the EC of export subsidies and threats to access to the European Community for U.S. export commodities.

There is no question that the EC subsidies provided through the common agricultural policy have hurt U.S. agriculture.

In fact, it can be pretty well demonstrated that it cost about 50 cents a bushel on our wheat last year.

The aggressive European Community use of subsidies is not confined to grains. I might point that out. The EC has moved from a substantial importer of several products to a significant exporter. Some of these products are beef, veal, wheat, sugar, and poultry.

We are concerned also about access to the European Community market, where many products are protected by variable import levies and other devices. The most pressing concern in terms of potential cost in U.S. exports are EC discussions of an internal tax on vegetable oils which would threaten U.S. markets worth more than $3 billion in soybeans and soybean products.

Also, there is some talk of impeding access for nonfeed grain ingredients, a market worth about $700 million yearly. The decision was made early in this administration that the United States would no longer tolerate what we consider the unfair trade practices of the European Community.

We focused these efforts and the USDA took the lead in developing a comprehensive interdepartmental strategy for the United States-European Community trade relations.

This plan was approved at the cabinet council level, and for the first time, the United States is taking a Government-wide approach to the problems of agricultural trade with the European Community. There has been a series of meetings beginning last spring to start with—meetings including Under Secretary Lodwick, Secretaries Haig, Baldrige, Ambassador Brock, myself, all sending the same message to the European Community. And we are very pleased that last summer after vigorous U.S. representations, the Community laid aside, at least temporarily, its proposal to impose an internal tax on vegetable oils.

I will say that that is temporarily because there is no telling what they will do, and we have not neglected to make our position clear at every opportunity. There also was an historic first meeting in Brussels in December of Secretary Haig, Ambassador Brock, and myself with President Thorn and other high level Community officials. This was followed in February by a followup meeting here in the United States.

We are going to be backing up these meetings with action, and an effort. Now last month, for the first time since the passage of the Trade Act of 1974, the United States brought a complaint against the EC before a panel of the GATT, a complaint that was filed 6 years ago. It was made by the Miller's National Federation to protest the EC subsidy on flour.

There are similar petitions and consultations in progress right now covering poultry, pasta, canned fruit, raisins, and sugar.

We are actively pursuing a 301 petition filed by the U.S. citrus industry in an effort to settle the longstanding dispute over preferential EC tariffs on Mediterranean citrus products.

As you know, our primary trade issue with Japan is market access. We are pushing the Japanese hard to liberalize imports of both agricultural and industrial products. In Tokyo last October, we pressed for total removal of Japan's import quotas on beef and citrus products. We continued this pressure and have in ensuing months.

Just a few weeks ago, Japan announced a list of measures to ease nontariff barriers including 36 that affect agricultural trade. I'll say that this is a useful first step, but it does not go nearly far enough, especially in the agricultural area and I guess probably in all areas.

As I suggested earlier, the need for intensified market development and trade policy efforts is even more urgent now because of the damage done by the embargo and the large supply of U.S. farm commodities.

Lifting of the embargo of 1980 recognizes the fact that the embargo of agriculture products is not likely to be successful especially without total cooperation from other exporters around the world. This was amply demonstrated during the 15 months of the embargo on sales to the Soviet Union.

As we have seen, beginning with the soybean embargo of 1973, our agricultural embargos have depressed farm prices, cost us markets and have stimulated competition. I would report as recently as last month when the Japanese team was in to talk to me, once again they brought up the concern about the United States as a reliable supplier and they brought up the soybean embargo which has been almost 10 years ago now.

Embargoes are costly to taxpayers. They paid a $2 billion cost with the last embargo; budget exposure from increased stocks and the loss of trade continues to plague us today. As I pointed out, it's damaged our reputation as a reliable supplier which we need to build upon.

The short-term effect of the embargo of 1980 has been to cut U.S. agriculture and to hurt U.S. agriculture. It has put us in the role of the residual supplier to the Soviet Union.

The negative impact has been of very deep concern to the Department of Agriculture. We have made supply assurance a principal objective on every occasion with customers, and with potential customers. I stressed this point in countless meetings here and in foreign countries.

This is with Government officials and importers alike. The United States is or intends to be—well, it will rebuild its reputation as a reliable supplier.

We have studied the provisions of the Agricultural Act of 1981 that call for the development of an embargo contingency plan.

Our preliminary consideration has raised a lot of questions about just how to put together a plan like this when there are so many variables, and a lot of answers that we don't have. I believe the Department would be able to move very quickly in keeping with the requirements of the Agricultural and Food Act to protect farm income and minimize disruption. This is in the event such action became necessary.

At this point, I do not think it wise to rush into any plan that would lock us into a course of action that might not be appropriate to the circumstances at the time if a plan were needed.

Let me emphasize this. I am convinced that such a situation is highly unlikely.

I will close, Mr. Chairman, by saying we are bullish on the prospects for the future of U.S. agricultural export growth. The world demand for food is rising. It is rising faster in the markets that we have targeted for the most intensive market development work. And barring global disaster, this demand will continue to rise. Our efforts to get a full share of this demand for U.S. agriculture are directed particularly at export expansion in this difficult year, but they are based on the long-term objective of sustainable growth upon which the well-being of U.S. agriculture will depend.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Secretary. I see Ambassador Brock has arrived. In order that we not have repetition in the questions, and avail ourselves of the presence of you two distinguished gentlemen and the Assistant Secretary, would you bear with us while we invite Ambassador Brock to the witness table. Why don't you just join them?

We are welcoming back the distinguished former Member of the House who now is the spokesman in matters of trade. We will hear from you at this time, Mr. Ambassador.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK III, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Thank you very much, Mr. Chairman. I can't find anything that Secretary Block said that I would disagree with. I will just try to make a couple of summary comments and be available for whatever discussion.

The CHAIRMAN. Your statement may be part of the record.

[The prepared statement of Ambassador Brock appears at the conclusion of the hearing.]

Ambassador BROCK. This is of fundamental importance to our overall well-being. Jack mentioned the settlement process we are engaged in—wheat and flour and dry fruits and citrus and so forth. It is important to stress one point.

I have said a number of times, as Secretary Block has said, that so long as the common agricultural policy has no ramifications for the United States, it should be an internal matter. When it begins to affect our trade, we have a legitimate right to complain if, in fact, the rules of the game are not being adhered to as we perceived them.

We are now testing which of us is correct. This is the understanding we have of the codes that we have signed. We are trying to do it in a noncompensational fashion. It is important that we resolve the matter once and for all and make a decision as to how the world trade in agriculture is going to proceed.

We are concerned about the public proposals of the commission that they will submit a request to raise the levy on imports of bran—not so much that we are a major bran supplier to the EC. Others have a larger share of that market, but we are concerned that these increases might lead to proposals to increase the duty on other feed substitutes such as corn gluten feed where our supplier interest is substantial. And we intend to continue to pursue every opportunity to let them know of the concern that we have in the area.

David McDonald, my deputy, is in Japan this week. Obviously, we intend to make a significant effort to further convince them of the hazard of continuing the import quotas on agricultural products.

I think rather than trying to elaborate on any of the specific points, it might save time for all of us just to be prepared to respond to your questions, and I'd like to do that now.

The CHAIRMAN. Thank you very much, Mr. Ambassador.

Secretary Hormats, we welcome you. We also invite you to join your colleagues at the witness table, and your statement will be made a part of the record, without objection.

[Statement of Mr. Hormats appears at the conclusion of the hearing.]

STATEMENT OF ROBERT D. HORMATS, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. HORMATS. Thank you, Mr. Chairman. In light of the fact that I gather a number of the subjects have been covered, I will be very brief and just summarize my prepared remarks.

Let me say at the outset it is a pleasure for me personally to appear before this committee for two reasons: One, because the subject that you're discussing today is of major importance—that is how to increase U.S. agricultural exports; and second, because for the last several years, I have played a very active role working with my colleagues in the Department of Agriculture and USTR and other agencies in the overall effort to increase American agricultural exports.

I think there is no need to tell this committee of the enormous importance of the agricultural sector to the American economy; it accounts for something on the order of 23 million jobs, about 20 percent of our GNP. All agricultural exports together are about one-fifth of all American exports. They brought in something on the order of $45 billion last year.

The United States today is the No. 1 agricultural power in the world. We are both the major exporter and an important importer, particularly of some products that we don't produce in this country.

With respect to overall policy, the administration—as I'm sure has been indicated by Secretary Block and Ambassador Brock—is committed to building a liberalized world trading system which provides increased opportunities for U.S. agricultural exports. This is particularly important in periods when we have relatively large supplies, as we do today.

A lot of effort has been made with respect to our trading partners in Europe and Japan to avoid the trade distorting measures that a number of them impose and to seek a greater degree of openness.

There have been a number of meetings very recently with officials from the European Community in which Secretary Block, Ambassador Brock, and Secretary Haig took part. There have been similar meetings with the Japanese, and I think overall there has been a great deal of effort and, indeed, a great deal of pressure put on countries to give fair treatment to agricultural exports.

With respect to the role of the State Department, we have been closely involved in and very supportive of the efforts that have been made in this area. We have worked with the Department of Agriculture and the U.S. Trade Representative in developing positions with respect to these issues and participating in the various meetings.

Now, after representations and discussions we have had with representatives of the agricultural community, and particularly Mr. Delano of the American Farm Bureau Federation and representatives of the labor unions, we have been making a major effort to increase agricultural exports.

We sent cables out to all our embassies emphasizing the importance of this, and I am happy to report to you today, we have gotten responses from 87 of our diplomatic posts abroad, which have given a number of very useful ideas for how the United States can take additional actions to boost our agricultural exports, particularly in the area of value-added products. We intend to work closely with the other agencies and with the agricultural community to pass these suggestions on and to develop them.

I won't go through the details of the particular problems we have with Europe and with Japan. I think it is quite clear from my written testimony that we are extremely concerned about the European Community's use of agricultural export subsidies and, indeed, the fact that it has gone from food deficits in a number of agricultural areas to being a major exporter in products that the Community traditionally has not exported. Such areas as wheat, sugar, meat and other areas are really not traditional Community exports.

The Community, largely through subsidies, has become a major exporter of these products, and this is of major concern to us. I'm sure it's been indicated what we have been doing in the GATT to press our claims in these areas.

With respect to Japan, as Ambassador Brock has indicated, Dave MacDonald is over there right now emphasizing a number of the very important problems we have with Japanese quotas.

In the developing countries, we have made a major effort through such things as the cooperator program, which the Department of Agriculture runs, to open up markets.

These are important, indeed, growing markets for agricultural products and an area of new opportunity for us.

With respect to the centrally planned economies, I suspect that you are all aware of the problems now with respect to the credit difficulties a number of these countries have which, to some degree, have affected their ability to import as many products as they would like and, indeed, as we would like.

China is one of the very bright success stories for agricultural exports among nonmarket economies. It is, today, the largest customer for U.S. wheat and, indeed, our hope is that we can work with the Chinese to permit further U.S. agricultural exports to China.

Let me just conclude, again, by reemphasizing our fundamental commitment to increasing opportunities for U.S. agricultural exports. We do this through support for the Department of Agriculture and the U.S. Trade Representative, and through use of our own embassies and posts abroad, to encourage others to buy our agricultural products and to help American exporters who run into difficulty to secure their access to those markets.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Secretary.

We have from the Department of Commerce the Deputy Assistant Secretary for Africa who is Mr. Joseph Dennin. We welcome you. Your statement will be included in the record.

[The prepared statement of Mr. Dennin appears at the conclusion of the hearing.]

STATEMENT OF JOSEPH F. DENNIN, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR AFRICA, NEAR EAST, AND SOUTH ASIA

Mr. DENNIN. Thank you. I will be very brief as to what I will say at this time. I am here particularly to speak to and perhaps to answer questions on the recently included trade investment mission to Africa and as Secretary Block was one of the leaders, along with Secretary Baldridge, the need to expand both agricultural and industrial products was the reason behind the reorganizing or the organizing of this mission, which visited the Ivory Coast and Nigeria and Cameroon and Morocco. I was one member of that mission.

The senior executives from some 25 U.S. corporations representing five different private sectors were the corps of the commission.

Two of those five sectors we believe would be of interest to this committee. Five participants represented agricultural commodities: the American Soybean Association, the Tidewater Grain, the U.S. Wheat Association, the Louis Dreyfus and the Rice Council of America. Four participants represented agribusiness equipment manufacturers and suppliers—Agro Tech, Allis Chalmers, Mid-West Agricultural Trading and Reed Steel Products.

The mission sought to increase U.S. agricultural sales to Africa through two avenues. First, we sought direct sales and in this regard, might note that U.S. firms already sell over $300 million of wheat, rice and corn to Nigeria alone. Smaller U.S. commodity markets exist in other African countries.

The growing size of Africa's population and the long time required for crop development projects deemed that Africa will need to increase its volume of food imports throughout this decade. U.S. farmers can supply this need.

Second, new markets can be developed in Africa and elsewhere to both animal feeds and other agricultural food products by assisting with the African countries to establish poultry raising and flour milling operations.

A word about the mission—at each stop on the intinerary, the corporate executives got right down to the business which they paid a great deal of money to be there. They signed contracts. There were feasibility studies agreed to; bid deadlines were set; followup trip plans were made.

We knew this is what the people came for, and this is what the success of the mission would be judged on. Mission participants knew that a significant portion of the mission's accomplishments would only be developed over time, and together we agreed on a monitoring followup procedure for the next 18 months during which we would share with interested agencies involved and among the participants themselves, the leads developed and the opportunities which arose. We will be having the first of these follow-up sessions on March 24. Secretary Baldridge is hosting a reception at the Department of Commerce. And many—most, in fact—of the participants will be coming back to Washington for the first time to get together and discuss what has happened as a result of their opportunities over there.

To close, let me say that we view this mission as a success. We hope it is the first of many similar missions. I would direct the attention of those interested to a copy of the Business America article which is attached to my statement. And in coming back, we asked several members of the mission what they thought of their opportunity over there, and they told us in great detail.

A couple of those perhaps speak more eloquently than I could about why we think it was successful. For example, one member, Dr. Francisco Fernandez, the president of Agro-Tech International of Miami, Fla., said, "We accomplished in 14 days what would have taken 2 years and $2 million to do by my company alone."

Paul Fahey of the Mid-West Agricultural Trading Co., Bushnell, Ill., said, "If no sales result, the fault will clearly be our own."

And the comments go on and on from other members of the mission. Thank you.

The **Chairman**. Thank you very much. We appreciate your presence and your contribution.

I will ask Mr. Wampler if he has any questions.

Mr. **Wampler**. Thank you. At the outset, I want to thank each of our witnesses for being here this morning. I know you are very busy persons, and we appreciate your coming and sharing your views with us.

In a subject as complex as this, it is impossible at one sitting to exhaust all of our concerns. I do want to thank you very much for coming.

Secretary Block, recently the United States affected a border agreement with Jamaica to trade U.S. corn for bauxite. Do you envision future agreements with other countries that perhaps have minerals or metals that we could use and that we could trade for them?

Secretary **Block**. I am, certainly, not opposed to that. In the final analysis, the volume of that kind of trade is rather limited but where it is appropriate and where it can be worked out, we will.

Mr. **Wampler**. On March 2, of this year, a number of the members of this committee wrote to you regarding ways in which export credit could be expanded. One of the recommendations in a letter was that the Department consider establishing a 6-year full guarantee credit program. Have you had a chance to react to that, or do you have any recommendations or response you could make this morning?

Secretary **Block**. I don't have a recommendation at this point. I am quite aware of the suggestion. Frankly, I think it would be helpful and useful. There are countries that would probably be apt to buy from us as opposed to maybe one of our competitors if they had a credit program that was improved or had some advantage.

It may have, certainly, some of the budgetary concerns but everything has to be weighed as to the pros and cons. Certainly, there are some advantages to the suggestion. I appreciate it.

Mr. **Wampler**. Mr. Secretary, another one of the recommendations in the letter I just alluded to was a sum of $500 million in outlays for the export initiative under one of the recommendations that we made. It would enable the Commodity Credit Corporation financing of approximately $3.6 billion of U.S. agricultural exports. In addition to that being covered under the existing GSM 102 program, we believe it would result in a net gain of the U.S. agricultural exports or perhaps as much as $1.5 billion.

I hope that you give these recommendations your careful consideration because we believe that this, in the short run, is what we are going to have to do to get the farm income up in this country to increase our exports. I appreciate your very careful consideration of those recommendations and your response at the earliest possible moment.

Secretary **Block**. We will be looking at them carefully. We do, indeed, appreciate the support of this committee and your interest in the expansion of agricultural trade because it is the lifeblood of our industry in this country today.

Mr. **Wampler**. One final question of you. If the appropriations committees or the Congress, in their wisdom, provide money for the agricultural export credit revolving fund, would the administration take steps to implement and use this fund?

Secretary **Block**. I can't predict exactly how it would turn out, if it is provided for. But if there is money ultimately appropriated for this fund, I should think that it would be utilized because it looks to me like fundamentally and in principle, a good program. It would help to expand our exports. That's what we are looking toward doing.

Mr. **Wampler**. It might well be that the committee would want to have Mr. Stockman or someone from the Office of Management and Budget before the committee so we could explore the possibility of allocating that much of the budget for this purpose.

It is a pleasure to welcome Ambassador Brock before the committee. He served with a great distinction both as a Member of the House and the Senate. We are delighted to have you here. I want to commend you, Ambassador, and also Secretary Block and Secretary Baldridge and others who have shown real initiative in helping to expand the agricultural trade. We are grateful for that.

I wanted to share with Ambassador Brock an experience that I had recently. I had the pleasure of visiting with some board members of the United States Meat Export Federation during one of their meetings here in Washington. They explained to me a situation that I was not completely aware of.

As I understand it, the Government of Japan determines the amount of beef that it will import annually in establishing what I believe they call a general beef quota. Then there is a semi- or quasi-governmental agency called the Livestock Industry Promotion Corp. that controls, I'm told, as much as 90 percent of the Government of Japan's beef quota.

Then, in order to sell to the Livestock Industry Promotion Corp., the U.S. packers have to be on their approved list, and I am told that the application and the approval process generally takes up to 2 years to complete. I was rather intrigued with this because what it amounts to is with all of the practices of the so-called LIPC, that generally means that the U.S. beef entering Japan is subject to a 25-percent import duty.

By the time the product reaches the end user, it costs three to five times the delivered price. I'm not asking you to necessarily comment on that particular mechanism, but it was intriguing to me. Why can't we do that with automobiles? Why can't we set up a Government corporation here and put a quota and say we're going to do the same thing? Isn't that what free trade is all about?

Ambassador **Brock**. All of your facts, first of all, are correct. Second, it is very tempting to respond in that way.

Mr. **Wampler**. You might be surprised at how tempting it is, and how popular it might be here in the Congress.

Ambassador **Brock**. I am afraid it would be, Mr. Congressman. But isn't the larger and more important question, how do we open up the markets for American beef, not how do we close our markets to their products? What we want to do is expand the process of trade.

I understand the frustration that you and the rest of us feel. The first goal is to see that we can open up their markets. Now, failing that, then I think they've got to anticipate that other negative actions might accrue.

Mr. **Wampler**. I don't want to direct all my wrath at Japan this morning.

I'm of the opinion that the Government of Japan is more sensitive, perhaps, to what the Congress of the United States is thinking on these matters sometimes than perhaps what agencies of the executive branch are thinking. It is frustrating.

I understand free trade, it is that you trade in those things that you produce most efficiently. Obviously, the Japanese do produce very efficiently in automobiles, motorcycles, optics, electronics and any number of things.

I don't think anyone could argue that we are not efficient producers of agricultural goods, especially beef, citrus, poultry, pork, grains, and the list goes on and on. The Japanese people need this. They could utilize this, I think, at a lesser price than what they're paying under the present governmental policies there.

So, I want to encourage you to use all of your good offices, as I know you are, to get the nontariff barriers down because it is denying the American producer of a market that he's entitled to, and a deficit in the balance of trade with Japan is something that we cannot tolerate.

I think perhaps we have tolerated it too long. I agree with you. I think what we need to do is to get the barriers down, but I think that this Congress is going to have to speak out more clearly than we have in the past.

I don't want to start something that we can't stop because it could end up being counterproductive. But I think they've got to understand this.

I alluded earlier to a mission that will be underway shortly. It is a group of producers under the auspices of the American Farm Bureau Federation going to Japan. I am satisfied that is the message they are going to carry to them.

I simply mention that to you because I am concerned, as I know everyone is, about this.

Ambassador **Brock**. If I can respond? I really do agree with you. The problem is serious. It's going to get much more so unless something changes. I, personally, am very grateful for the support I've had and this administration has had from the Congress. I don't think there is any doubt that the Government of Japan is getting a very, very clear message. Whether or not they act is entirely in their own discretion. We can't mandate what they do.

I think we can suggest that the alternatives to action are unacceptable to both countries.

I have been in this town for 20 years. I have never seen under either party or any administration anybody so totally united on this issue as this administration, nor have I in 20 years seen the degree of cooperation between the negotiating arm that I represent and the basic industry arm that Jack represents and the State Department, which is the diplomatic arm.

We have a very, very effective and closeworking relationship under the leadership of Al Haig and Secretary Block.

I think it makes a difference when we speak with one voice. I think this will make a difference in this process.

The **Chairman**. Thank you very much.

Let me just reiterate whatever signals can be sent from the hearing this morning that both Mr. Wampler and I many times together have had.

You have visited with delegations from other countries and our trading partners in Europe and Japan. If the signal is to come from here, it is what we have been telling them all along.

As trading partners we believe it works both ways. We trade with them in one way and we buy from them as to what they are able to better produce and to manufacture.

We have no qualms about that. That is our intention.

Our concern has been—and we use this forum to advise all of our trading partners—that unless nontariff barriers are negotiated to the extent that they are equitable, then intervention or interceding on behalf of our constituencies that we in the Congress have, then we perhaps can undo what you gentlemen have done from both our trading partners and you.

The atmosphere here is such that any protectionist bill that might be introduced with one item, then I dare say that would come out of committee and would pass the House with 90 other items attached.

I would imagine that it would pass someway in the 390's to 10 or 12.

To the extent that we are able and that we ask your assistance to convince our trading partners that that is what we are facing, then unless there is action which is positive both ways and which can satisfy the anxieties of our producers, then we in the Congress, and especially in the House, are one weekend away from our producers.

We hear from them every weekend. If we would not truly be their voice, then we would have legislation that would mess up trade for the rest of this century and turning us loose from the subject.

I caution ourselves and I hope the signal goes out and I urge you gentlemen in your meetings that you might explain the facts.

I yield to the gentleman from California.

Mr. COELHO. I compliment the chairman for that statement.

This is from one who comes from a major agricultural producing area and one who understands the importance of trade both ways.

I have become less tolerant of the attitude of some of our trading partners, Mr. Chairman. I am one of those who is considering legislation which I know is not in our best interest in the long run.

But I just would have to reiterate what you said that if our trading partners do not understand the feelings that exist in the Congress, then it is critical that they pick up the messages that are being made.

We have to do something. We have to have a better trading atmosphere out there.

I think your statement, Mr. Chairman, is well said. It does reflect my attitude and the attitude of a lot of other members.

I appreciate your statement.

The CHAIRMAN. I thank the gentleman.

I recognize Mr. Bowen.

Mr. BOWEN. I am very pleased that the gentlemen are with us today. I share the views expressed by Mr. Wampler and the chairman that credit is inevitably going to have to play an essential role in our agricultural exports if they are to expand. We certainly are going to explore every avenue to try to see that credit is adequately utilized.

We have at least two problem areas right now that I would see immediately before us. One of them is in the Public Law 480 program.

Your fine staff and Dick Smith are doing an excellent job. I am concerned, however, about the slowness of movement of the commodities through Public Law 480.

You indicate that almost the full value of the $700 million available in Public Law 480 has been allocated. Allocation does not sell commodities, as we know.

For example, in the case of rice there has been no rice sold in Public Law 480 in this fiscal year. We are, of course, very anxious to see things move along.

Let me mention a credit area here and that is in the GSM 102 field.

I understand there are some banks which are not willing at this time to participate in our guaranteed credit program with only 6 percent interest guaranteed.

This is given the high interest rates that exist today and the Polish debt situation. These banks, I think, are looking at applications very closely. Some of them have been turned down and some countries which have sought credit under GSM 105 have been turned down.

I wonder if you have under consideration anything to address this problem of an inadequate guarantee level to support the GSM 102 program.

Secretary **Block**. I am not aware that we have been turned down by some banks for some countries. But I guess I would have to say I am not surprised depending on which countries they are.

I also would have to say that I am not so sure but what it is probably good business that some countries be scrutinized more closely than perhaps they have been in the past.

The only way to keep the banks from turning down some countries would be if we guaranteed every penny of it. Then they would not care. I think they have some obligation.

Probably it is good that they carry some small part of this risk. So, I am not so sure that I would favor altering this.

Mr. **Bowen**. There is a great disparity between 6 percent guaranteed and what the current interest rates are.

Ambassador **Brock**. Nobody can rationally loan money at 6 percent when the rate of inflation is 9 percent, whether there is a Government guarantee or not.

Mr. **Bowen**. We have seen the rate of inflation drop down to 3½ percent currently.

Ambassador **Brock**. That is on a monthly basis. The base rate remains over 8 percent, which is substantially above the rate allowed under the program.

As one who usually borrows, I can sympathize with those who want to loan. This is one where you effectively lose money on every dollar they put out.

I think we do have to find a way to get the interest rates and the rate of inflation down.

Mr. **Bowen**. As to the Public Law 480 issue, Mr. Secretary, do you feel you have geared up a major effort to try to move some of the commodities? It would mean a great deal to many of our commodities if we could see a little more action.

Secretary **Block**. I appreciate that. If there is anything we can do to move them faster, we will. I know the faster we move the product, the better possibility of strengthening the price.

Mr. **Bowen**. I realize prices are depressed worldwide for rice and many other commodities. I just hope that the Department will do all it can.

Let me mention one other subject that several of you addressed.

Ambassador Brock mentioned unity, speaking of one voice on agricultural matters. The Secretary also mentioned the issue of the united front.

The problem occasionally rises within the administration that I have seen currently in a dispute with the Republic of Korea in which we are endeavoring to see that Koreans honor the obligations for the purchase of American rice which they undertook as a consequence to United States and Japan Rice Agreement of 1980.

What we have taking place within the administration right now is very sadly and unfortunately a situation in which some of the staff of the State Department seem to be negotiating on behalf of the Koreans, with USDA negotiating on behalf of the American farmers.

I admit I have friends I have not seen from time to time within the State Department. But they seemed to be overwhelmed. I understand the problem.

What I would like to see is some mechanism within the executive branch that would enable this kind of confrontation and deadlock to be lifted from that level in which you have a bureau within the State Department engaging in this kind of activity.

Somebody either at a higher level of State or an interagency level would then be a referee in this matter, someone who might be able to lift that issue above that plateau.

What do you think we can do about it? I would like to ask any of you.

Mr. **Hormats**. I think you know me well enough to know I have not engaged in clientitis.

The objective we have pushed with the Koreans, and we are totally in agreement with the Department of Agriculture, is that the Koreans should purchase and ship the 500,000 tons by August 31, which is the objective we believe they have committed themselves to.

I believe that we and the Department of Agriculture are in complete agreement that that objective should be attained by the Koreans.

I just wanted to clarify that point. There are all these people, perhaps at different levels, that may see things in slightly different lights.

I can assure you that we are in agreement on that objective at the level at which we are cooperating with the Department.

Mr. **Bowen**. Do you, as Assistant Secretary for Economic and Business Affairs, feel free to take an issue like that from a bureau and bring it to someone's attention higher up the ladder within the State Department? Do you feel there is obstructionism taking place?

Mr. **Hormats**. We do it all the time. I do not feel any reticence. It seems there is an obligation here that we should fulfill for our ricegrowers. We have a commitment from the Koreans that we would like them to honor. We indeed have made this point on a number of occasions to the Koreans at a very senior level.

Mr. **Bowen**. Thank you very much.

The **Chairman**. I recognize Mr. Findley.

Mr. **Findley**. Thank you, Mr. Chairman.

Gentlemen, I am not sure that many people in the administration—and I certainly don't think that many others in the administration, other than the Secretary of Agriculture, understand the gravity of the financial crisis that American agriculture is in today.

If I may venture a suggestion, I think it would be helpful, Mr. Secretary, if you would use your good auspices with the President to provide a way that mid-State, mid-American Congressmen representing the Grain Belt of our country can get into the White House and have the President's ear for a few minutes to lay plainly before him the facts about this grave situation.

Mr. Secretary, I heard Ambassador Brock make the statement that no one could rationally loan money at 6 percent with the inflation rate at 9 percent.

In a normal business that certainly is a sound observation. In the moving of farm commodities, I think that it should be examined. There are enormous costs to not moving grain by subsidized interest rates.

I do not have the pencilwork done, but I suspect we could even convince David Stockman that an investment in subsidized interest rates to move some of our stocks of grain would save the American people quite a bit of money.

So, I ask you to reexamine that statement in that light.

Ambassador **Brock**. I was talking about a commercial bank with the precise program that Mr. Bowen raised.

Mr. **Findley**. The fact is that we have enormous stockpiles of grain today and we are going to have even more next October. We have in place a farm program that, in the absence of an improvement in farm prices, is going to make the situation much worse.

We may have an outlay of $7 billion in the next year. At the end of that time, at the end of that outlay of money, the situation may be even worse than it is today.

We do not really have any choice but to use every avenue to move farm products in the foreign markets and to be very aggressive about it.

One avenue that I do not think is fully reopened is the Soviet Union.

As all of you know, there is a sort of de facto embargo on grain sales. We have sold them some corn, but we have also missed out on quite a few deals of recent date.

I would like to ask this question, Mr. Secretary. Will new contracts for future delivery of grain to the Soviet Union be honored by our administration? Can traders make these contracts with confidence that they can deliver?

Secretary **Block**. Congressman Findley, let me say this. I would say with confidence that, unless some extreme behavior were to take place on the part of the Soviet Union, those contracts will be honored.

We cannot predict the future, but I think that whether they are honored or not is entirely in the hands of the Soviet Union. I cannot imagine they would not be honored.

If I may, in response to your concerns, which are my concerns, too, about the state of the agricultural economy, I would say this. Within the past 2 weeks I had the opportunity to make a presentation to the Cabinet Council on Food and Agriculture with the President and most all the members of the Cabinet present.

We talked at some length about the state of the agricultural economy with charts depicting the price declines in all the commodities.

We talked about trade and other thoughts on addressing our problem. Even though we may not have all the solutions, I think that the situation is pretty well understood from the President on down.

I do appreciate the Members of Congress wanting to meet with the President. I will help facilitate this with some kind of a forum as soon as it can be arranged.

Mr. **Findley**. To clarify an earlier response, am I correct that, in the absence of some critical new development in Soviet behavior, the grain industry can count with confidence on being able to deliver new contracts?

Secretary **Block**. I would be confident that would be true.

Mr. **Findley**. Another cloud hanging over the market is the absence of any discussions for a new arrangment of the Soviet Union to follow on beyond October 1.

Can you give us any information on further discussions on new grains arrangement or when it might be undertaken?

Secretary **Block**. I have no timetable. I personally feel it is appropriate to postpone it. That is what happened as to discussions on the agreement because of the tension that existed and still does exist, and perhaps not as severe, but it is still there.

Until the international atmosphere becomes less tense and is less of a problem in this regard, I do not expect us to seek negotiations.

I would say I still hold out reasonable hope that we will have an opportunity to negotiate a new trade agreement this year.

Last year Ambassador Brock, along with the Under Secretary, went to Moscow and negotiated an extension of an agreement. It took them 4 to 6 hours. It did not take very long once the time was right and the conditions were right and we had an understanding or a feeling between the countries that we were going to get the job done.

Right now I do not think that exists. It does not mean to say it will not exist. There are a lot of differences of opinion on an agreement.

I do think that agriculture in general favors one. I favor one. I think it helps keep us from being a residual supplier.

I would point out, as you probably are quite aware, that the American Farm Bureau Federation, the largest farm organization, does not want any. They feel they should come in and buy at will, which would be the case after October 1 in the absence of an agreement.

Mr. **Findley**. May I ask one further clarification point?

The **Chairman**. The gentleman may proceed.

Mr. **Findley**. Mr. Hormats and Ambassador Brock, you heard what Secretary Block said in regard to the new contracts for delivery to the Soviet Union.

Would either of you have any dissent from what he said?

Ambassador **Brock**. Not at all.

Mr. **Hormats**. I would like to say this.

Ambassador **Brock**. Excuse me; you said a sort of de facto embargo on grain. Is that simply not the case?

Mr. **Findley**. May I clarify that?

The grain trade has been reluctant to make futures contracts on delivery to the Soviet Union. It costs money to hedge. They do not want to run the risk of losing that hedge investment in the event the administration might prohibit delivery subsequent to the contract.

Ambassador **Brock**. Mr. Congressman, we have said time and time again that agriculture will not be singled out again as it was in the past.

The Congress has acted on the farm bill by making it virtually impossible to have an unilateral embargo on one sector, particularly and precisely agriculture.

I think they can rest assured that there is a much more stable climate than which might have existed in prior years.

Mr. **Hagedorn**. Would the gentleman yield?

The **Chairman**. We will come back to the gentleman.

I recognize Mr. Richmond.

Mr. **Richmond**. May I reinforce the point that Secretary Block made to say that I am in full agreement with his statement as to what was said.

The **Chairman**. Is that your reinforcement? Or do you want to say more?

Mr. **Hormats**. I want to underline the point that Secretary Haig also made when he indicated unilateral grain embargoes are self-defeating and sterile.

I think he was saying this in direct response to some questions that had been asked as to his views. I also wanted to put that point on the record.

I think that should give further comfort to the agricultural community on this point.

The **Chairman**. I appreciate that point. I might add that we were pleasantly surprised and pleasantly shocked at that statement.

It was made by the Secretary because the soundings have been contrary to that. I am very happy to reinforce in the record that all three of you gentlemen representing your respective agencies, agree on that one fact.

Ambassador **Brock**. We all work for the same boss.

Mr. **Richmond**. May I proceed?

The **Chairman**. You may proceed.

Mr. **Richmond**. We discussed Japanese-American trade relations. On my Joint Economics Committee I have been spending most of my time worrying about Japanese and American relations. We are faced with $40 billion in heavily manufactured luxury goods coming into this country and $20 billion in nonrenewable natural resources with very little labor content, leaving the country.

The 40 to 60 items we got from recent agreements with Japan, those few items at maximum can only come to $200 million worth of sales. That is the maximum.

Basically the Japanese have not given us anything. Last week I introduced a bill—which is a very simple bill—I copied it from the Canadians and the Australians.

For every dollar worth of nonrenewable natural resources that the Japanese buy from us, they may only ship back to us 50 cents worth of heavily manufactured high-labor content goods.

It would be the President's prerogative; if the President sees there is no cooperation from the Japanese Government, we can only sell them commodities at one-fifth their own cost—beef, one-fifth; rice, one-fifth; dairy, one-third.

In other words, we can save the Japanese consumer $35 billion. We can save the Japanese Government $20 billion in subsidies.

As we know, because of their political situation, they will not do business with us.

My bill gives the President the right to demand the two-for-one system that they now have with Canada and Australia.

What do you gentlemen think of that?

Ambassador **Brock**. With all respect, Mr. Congressman, I can conceive of no circumstance that would allow the administration to support that legislation.

We have labored since 1923 in the world system to develop a multilateral trading system, imperfect as it may be. But it is better than the alternative that we had in the 1920's and the 1930's.

We continue to try to improve it. To adopt legislation that would require a trade policy separate and distinct for each country would destroy not just this Nation's economic interest but the world trading system.

That, to me, would be a terrible tragic act.

Mr. **Richmond**. Would you agree that our relations with Japan are about as unequitable as any trade relations in the world?

Ambassador **Brock**. Just a moment.

Mr. **Richmond**. Not only because of the size of the deficit, but the quality.

Ambassador **Brock**. I think all of us have expressed, at considerable length, our concern with the trading relationship and with the existence of continuing Japanese trade barriers.

There are remedies available which presently are being sought. If we fail to achieve a resolution of the problem, it is going to get much more serious.

But I cannot support legislation that would require us to have a bilateral trading policy with each different country. It will not work.

Mr. **Richmond**. As the chairman said, most Members of the House of Representatives would understand that we are sick and tired of being taken by the Japanese. We would like a little equity.

All I am asking for is equity. As you know, the amount of labor involved in manufactured goods against the nonrenewable natural resources is one-fifth. We get no labor. We are now shipping the Japanese commodities at the lowest prices in the history of commodities.

Commodities today, as you know, are cheaper in constant dollars than they were in 1934. A bushel of corn, a bushel of soybeans, a bushel of wheat, and copper—everything we ship to the Japanese is at an historical low price.

The Japanese will buy our hides. They will not buy our leather. They will buy our corn. They will not buy our beef.

It seems to me that we are being treated arrogantly. They are not giving in 1 inch on the basics. They think this is the survival of the liberal Democratic party.

It seems to me we are talking about American survival. We are talking about almost 1 million jobs. Just think what 1 million jobs could mean to the United States—$25 billion alone in savings in unemployment compensation.

Shouldn't we start thinking of the future of the United States and where we are going in the world instead of continuing to help the Japanese live better than we are living?

Ambassador BROCK. We are.

Mr. RICHMOND. It is going so slowly. God knows you worked hard enough on the last deal. But the absolute in maximum sales we can get out of that agreement is $200 million.

Ambassador BROCK. I disagree with that.

Mr. RICHMOND. The figures came from your office.

Ambassador BROCK. The point about benefiting the Japanese consumer is valid. They are paying $8 for a glass of orange juice, $15 for a melon, and $37 for a sirloin steak in a Tokyo hotel. Those are inexcusable prices.

I want to refer you to something that the chairman has said that is fundamentally important about this kind of a conversation.

This committee, and the farm sector of the American economic system, have been the primary advocates on expanding and liberalizing of the world trading system.

The chairman said that if we start walking down some of these paths we could take action that all of us would regret for a long time to come.

If this committee does not know that agriculture cannot survive without exports, then no committee does. You have been in the forefront of the fight.

One-third of all the crops produced in the United States are sold for exports. In some cases, it is well over 50 percent of the particular crop.

If we start taking retaliatory actions which violate international agreements, we will invite retaliation and we will suffer the greatest and agriculture will suffer the greatest.

I do not think that is acceptable.

Mr. RICHMOND. That is not correct.

First of all, we are probably the only supplier that could probably supply Japan with such items as beef, corn, and dairy products.

Second, my plan is working quite well in Canada and Australia.

Ambasador BROCK. Australia can provide them all the quality beef they can eat.

Mr. RICHMOND. It is high quality for us, not low quality.

Ambassador BROCK. They will eat it.

Mr. RICHMOND. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair would like to say that the Chair stands on the statement he made as it appears in the record and any interpretation by others is their own.

With all due respect, if our trading partners could have heard the last discussion, then this is what I am concerned with.

That is why it is in your hands to do the utmost to arrive at some equitable solution.

Mr. HAGEDORN. I want to thank the gentlemen for appearing before the committee.

This issue is extremely important. I think it is fair to point out—which is becoming very obvious that the trade issue has galvanized the Congress in the last 6 months like no other issue I have seen in the last 8 years.

As we attempt to resolve some of these problems like the time delay issue—there is 5 years in this flour situation and still no solution. It does not seem like we get any resolution than when they have decided they are against the United States in the ultimate end.

I think that is part of the frustrating process, as we look at ways to eliminate obstacles in an effort to expand trade. Interest subsidies have been talked about as well as their impact.

For you gentlemen at the table, this is no doubt not new news to you. But I think it is an important point to point out some of these problems and possible remedies.

As we look at the cost of storing grain, if we have the wheat and corn in the farmer-held reserve for the next 3 years, it is going to cost us without any increase in storage rates above the current level, 79.5 cents a bushel to store.

Yet we could possibly move some of that grain with a 3-percent interest differential. That was the primary concern when the chairman and some of us visited six different foreign country agricultural leaders.

The interest rates and the strengthening value of the dollar were the two big factors as to why exports from this country would not be increased. In fact, in many instances it is declining.

Yet we could subsidize it with a 3-percent interest rate differential at a cost of 72 cents. We could get that product consumed and get it out of the marketplace.

Ultimately, I think that would bring about some economic rejuvenation of our farm economy and our total national economy.

Whatever the administration has against using these practices, I think it is time we pushed it aside so we can see some light at the end of the tunnel and not find a search party looking for survivors.

That is what is going to become of it if we do not get moving and try something very dramatic in the next few months. We do not have years to wait. This thing is going to come to a head a lot sooner than a lot of people really understand.

Maybe a possible solution or suggestion might be instead of all the Government-to-Government negotiations, maybe we need to work with the Department of Agriculture and our Special Trade Representative and work with the various agricultural exporting commodity groups, whether it is the corn growers, the soybean growers, the peanut growers, and combine an effort.

We could go for the juggler within the countries, that is, to move and shape public opinion.

I have an idea that consumers in the European Common Market communities and Japan probably have about as little knowledge of what the real costs of their food and fiber is over there as American consumers do.

Most of the American consumers do not know today that the farmers are getting less than 30 percent of the food dollar. I think overseas many would be surprised at the very large amounts of subsidies.

If we broke it down in a very intensive advertising program, not the Government doing it, but these commodity groups serving as the focal point, and showing the difference in a piece of beefsteak or a slice of bacon and what it would be with free trade—fair trade. Maybe that is the way we are going to have to attack this problem.

To move them domestically and internally is the way so they will put the pressure on their own politicians, to give them access to reasonably priced, high quality food.

In regard to the European Common Market export subsidies, we know that they are in violation of the 1979 Subsidies Code. They persist.

I am interested in knowing just exactly what our Government officials are doing to eliminate these.

Ambassador Brock, in all respect, in your testimony, you stated:

> So long as the common agricultural policy has no ramifications to the United States, it should be viewed solely as an internal situation.

I do not believe we can ignore what is happening internally with tremendously high subsidies when they are shipping their steel, when they are wanting to sell their ships, when they want to send us locomotives for our mass transit systems and all these things.

We can't ignore what they are doing on the industrial side to our country and at the same time say: Whatever you do to prop up agriculture internally is of no consequence or importance.

I do not believe we can adopt that standard and expand these markets that we need so badly without a different attitude. I may have misunderstood it.

Ambassador **Brock**. Let me clarify this. I do not think you understood my precise words. I would like to state for the record what it is we are trying to do.

We filed, as you noted, an expression of concern or a complaint in 1975. That is the Millers Federation. There were informal consultations held under two different administrations for 5 consecutive years.

We did not file until September of last year our first formal proceeding under GATT. This is against that practice in this area.

Since that time we have had article XII consultations. We completed that conciliation phase in December. The case went to a panel and in February the next and final meeting —well, it was in March.

This is the first time under this administration that we have ever formally filed complaints against these practices with the EC.

We are consciously getting a lot more aggressive.

Second, on the question of steel, we accepted over 100 cases. They found at least 44 of sufficient validity for the investigation to proceed.

We are actively pursuing that question. We simply cannot tolerate a continuation of the old practice. I did not mean to mislead you by my two short statements.

Mr. **Hagedorn**. Let me say, Mr. Ambassador, I have been most commendatory of the strong aggressive action taken by the administration with your Trade Department, with the Secretary of Agriculture, and with the State Department.

It has been unprecedented. I think for once agriculture is not the stepchild of trade, but perhaps an equal partner of trade and something which we need to emphasize.

Ambassador **Brock**. It is not and it will not be.

Mr. HAGEDORN. Thank you for your comments.

The CHAIRMAN. I recognize Mr. Bedell.

Mr. BEDELL. Thank you.

I would like to associate myself with a great many of the remarks made by the members of the committee.

I think it has been most helpful.

Let me ask you this. When you were here a week or two ago, if I recall correctly, I asked you if it was correct that within the Department that you were projecting a decline of 30 percent in net farm income for 1982 to only $14 billion.

At that time you questioned those figures and were going to check and find out. You recently made some presentations to the Cabinet.

My question is: Have you checked and are those figures accurate? If they are not accurate, would you tell us what the proper figures are?

Secretary BLOCK. We do not have any accurate figures today. I guess it is mostly off the top of my head when I said it looked like the income would be possibly down.

I know it sounds strange that we do not have the answer, but, frankly, if someone would ask me what I would make this year, as a farmer, relative to last year, I would not be able to tell them.

I do not even have the crop planted yet.

Mr. BEDELL. You do not have projections of what you estimate net farm income would be for 1982; is that correct?

Secretary BLOCK. We do not. I checked with our Research Service. They said that they just have some figures, but they do not have anything specific at all.

Mr. BEDELL. Is it correct that we always before had estimates by this time?

Secretary BLOCK. I do not know. I am not aware of that. We may have had it last year.

Mr. BEDELL. I really appreciate your remarks regarding the revolving fund. If I understand it correctly, in your opinion, if we appropriated money for the revolving fund for exports under CCC, we could expect the administration to cooperate and see it was used and that there was a demand for it?

Secretary BLOCK. That is my expectation if appropriated.

Mr. BEDELL. I was quite disturbed over your answer to Mr. Findley as to the de facto embargo.

If I understand you correctly, you said it would not be an embargo to single out agriculture. That is not the concern of this member of the committee and a lot of people.

The concern is that we keep hearing rumors that there might be an embargo of the Soviet Union based upon some of their activities that they have taken already.

The question is not whether they will be singled out as to agriculture, but whether it would include agriculture. Just so you know, if the attitude of the administration is that it is perfectly all right to have an embargo as long as it does not single out agricultural products, I have to tell you that I think the agricultural area of our country is just going to be absolutely up in arms if there is a general embargo that includes agricultural products.

Ambassador **Brock**. That does not reflect the viewpoint of the administration. I regret that you might draw such a conclusion.

What I was trying to say is what the President said in his campaign and the statement to which American agriculture responded very favorably.

We should not ask one segment of the economy to bear the burden unilaterally. Again, concerning the question of what actions might be forthcoming, you should better address this to someone other than this administration.

As the Secretary said, unless there is some new action by the Soviet Union that would be extremely negative and a threatening of our own domestic well being, then there is no change of policy contemplated.

Mr. **Bedell**. The question is: In your opinion can the grain suppliers be confident that unless there is a change in the Soviet policy there will not be an embargo which would adversely affect their ability to ship grain to the Soviet Union?

Ambassador **Brock**. Yes.

Mr. **Bedell**. Thank you.

I yield back my time.

The **Chairman**. We thank the gentleman and we appreciate his assistance.

Mr. Morrison?

Mr. **Morrison**. Thank you, Mr. Chairman.

I have always been a practical soul. The question I would like to ask for comment from each of you is this.

This Congress can provide a whole host of things that relate to our trade relationships with other nations. We can talk about credit, trade missions, advertising, research, moral support, threats.

Mr. Wampler indicated that we need a two-by-four to get their attention, and our distinguished chairman indicated "Let us hope we do not do something that really damages our overall goals" and I would like to determine some positive steps that would get attention and move toward our goal of increased trade .

I would like to ask you for a practical suggestion of what, in fact, this Congress might do that would send the message that would express some of the frustration we have, particularly with our trading partners in Japan?

Is there action of any kind that you could see that might give a hint of the strength of feeling that exists in this country on trade imbalance that still would not endanger the work that I think your agencies are doing very effectively at this time?

Ambassador **Brock**. I think the Congress has already done a great deal to help by holding a hearing like this and by the expression of concern from members of both parties without any ideological distinction.

My own instincts would argue for the Congress to be very cautious about legislation, if there is a need. It does not exist in the product area so long as the international accords are tested and they work.

We are in the testing phase right now. We have taken the EC, for example, to the GATT. Failing successful completion of any discussions with the Japanese, we may have to take them to the GATT on quotas because they are violating the rules of the game.

If, in fact, we are wrong in our analysis of what the International Accords say, that there should not be trade distorting subsidies or trade barriers, then that simply says we need to strengthen the GATT.

We already have asked for a ministerial level meeting, which has been agreed to for this November, in which we are going to take agriculture as a principal cause before that organization.

We are currently trying to solicit the support of other agricultural exporting countries, such as Australia, Argentina, and Canada and the rest.

If there is need for legislation, it probably would be limited to areas not covered by the GATT, such as services and investments.

For the moment, the first step is to have an expression of support that you have already given along with the testing of the process in the legitimate, legal forum, which is the GATT.

The attempt to strengthen this organization will occur this November.

Mr. **Morrison**. Do you need more tools, including two-by-fours?

Secretary **Block**. From my perspective, I have to say that the negotiating responsibility rests in the hands of the Ambassador.

I would yield to him on that in terms of some kind of congressional action. If some congressional action is taken it probably should be some action that would provide something for the President to do in his discretion rather than probably mandate something that might get us into trouble, that is, if something is done.

I guess that is one door that I would open.

Ambassador **Brock**. His discussion should be limited to actions allowable under international agreements. I would add that caveat.

Secretary **Block**. Yes.

Mr. **Hormats**. I stress the point that the international economic system today is under major stress. I think I would follow up your suggestion, Mr. Chairman, and that is we want to make sure that what we do has the maximum impact in getting more access to the foreign markets without giving other countries a pretext for cutting back areas where we are very competitive now. That is an important point to make.

Second, as one who participated in the conversations that Ambassador Brock and Secretary Block have had with both the Europeans and the Japanese on agricultural issues, I can attest to the fact they have put together the positions and advocated them with great effectiveness. They have been able to use the strong sentiment coming out of these sorts of hearings as additional support for the American position.

As someone who cares about agricultural exports, I have been most impressed with the effectiveness with which they put the arguments forward and the sort of views that came out of the Congress that were extremely helpful in this respect.

I think new legislation at this point probably is not needed and the sentiment that comes out of the hearings such as this is extremely helpful in itself.

Mr. **Dennin**. If I could mention one area that the new legislation might be of some use, it is our view that it is not enough to simply view this from a negative standpoint and what we need to do to get back at somebody else, but what we can do to become more competitive in that regard.

The Congress has done certain things that have made us more competitive and the tax changes affecting Americans working abroad, for example.

We believe the export trading company legislation which is presently before the Congress would be an excellent type of tool that we could use if you could give it to us.

Ambassador **Brock**. I get a little bit wary of people that criticize somebody else. The export trading company legislation passed the Senate, by a unanimous vote in 1980.

It did not get considered in the House. It passed the Senate again by virtue of unanimous vote last fall. It is still lagging in two different congressional committees in the House.

If you are to help, gentlemen, give us some tools that are affirmative. FCPA needs to be modified, simplified, and made workable. The export trading company bill needs to be passed.

We could then provide an opportunity for our traders to trade.

Mr. **Morrison**. Thank you for the extra time, Mr. Chairman. I hope we can find some of the tools that will help get foreign trade results.

Secretary **Block**. I wholeheartedly concur with the Ambassador on this. The Japanese use them to such advantage.

The **Chairman**. I recognize Mr. Dorgan.

Mr. **Dorgan**. I have three quick observations. I'd like to ask a brief question.

I think Congressman Bedell was trying to say that in the general trade embargo the agricultural community would suffer disproportionately because most of the trade of the Soviet Union is agricultural trade.

Congressman Findley's note about a White House meeting is important. We have sent to the gatekeepers over at the White House another reminder that there are a good number of the Members of Congress coming from the Farm Belt who feel that agricultural issues are critically important to us and we would like to have a chance to meet with the President on them.

I would encourage you, Mr. Secretary, to continue to see whether you can arrange such a meeting.

On export issues and trade issues, I find the work that you have done, Secretary Block, very encouraging. The travels you have made and the contacts you have made are very encouraging. The future of our agricultural industry, is held in the ability to export substantial amounts of products around the world.

Ambassador Brock, I find the things that you are doing to be refreshing. I want to say that I am a free trader and I believe in free markets.

I think the signals that you are sending out and the work that you have done are moving us in the right direction on world trade issues.

I just want to compliment both of you on that issue.

I would just like to raise the issue of the cleanliness of the products we send overseas from the agricultural sector. We had a couple of fellows from North Dakota State University go overseas and talk with some of our export customers.

Let me just read you part of their report. The importers told them: "Wheat shipments from the United States often arrive with excessive amounts of dust and dirt. They also complain that grain protein content is sometimes well below that certified by the Federal Grain Inspection Service."

I am reading from a press statement. I think the press statement overstates the issue just a bit.

But I talked with the folks who went overseas. They said there is a problem. Canada has established the reputation on the world market of cleaning wheat until it is cleaned, while our wheat is exported under dock standards that some call obsolete.

As I understand it, if you have 1 percent dockage and if you are at 0.95, or just under that 1 percent, it is rounded off for sale to 1 percent.

So, something with 0.95 percent dockage would be sold as something that may contain 0.05 percent dockage. On a shipment of 50,000 metric tons this means that the exporting firm can dump the equivalent of about $40,000 worth of grain dust or dirt back into that sale. The customer thinks he is getting something with a one-half-percent dockage. They open the cargo and they have something with 0.50 percent dockage, which is substantially different.

I wonder whether you are concerned about that issue, Secretary Block, and what is happening in the USDA to deal with what some consider to be an obsolete dockage standard?

Secretary **Block**. To tell you the truth, we are always concerned about the quality of our products abroad because we must have quality and integrity if we are going to sell.

All the information I have received as the Secretary of Agriculture over the past year has really been very favorable to the quality of American agricultural products shipped abroad.

We have had a minimum of complaints. We, in fact, have had many compliments about the quality of our products relative to other countries.

That is not to say some country like Canada is not doing something superior to us, but on balance we are getting some very high marks with the quality of our grain today.

If we had some specific problems and if you would make me aware of those, I will follow up with our Administrator of the Federal Grain Inspection Service to review the situation until it has been corrected.

I do view the need to have high quality products as a very serious and important one.

Mr. **Dorgan**. I appreciate that. I think we both agree. Unless you deliver a quality product, you are going to ruin the market for that product.

We do grow a quality product here in this country for export. We want to maintain confidence in the markets that we have.

Some are calling for dockage standards that are more stringent than today's standards; instead of rounding to the nearest one-half of 1 percent, rounding down to the nearest tenth of a percent. The exporting companies have said that we would call for dockage standards that come to the nearest one-tenth of 1 percent.

I would like to send some reports on to you in that regard. I appreciate it if you would take a look at them.

Thank you.

The **Chairman**. Mr. Gunderson?

Mr. **Gunderson**. Thank you, Mr. Chairman.

I would like to join the committee in saluting all of you for the work you have done. I think it is obvious the committee has a high regard for the initiatives that you people have put forth in the expansion of our trade efforts.

With that comment, let me address my first three questions to Secretary Hormats.

Let me begin by complimenting you on your statement. I come from a dairy area. You are the only one that mentioned concern about the increased dairy exports of the European Community.

I want to focus on a different question and that is probably the greatest concern in the dairy area. It deals with the fact that we do have an embargo on dairy products and the sales of dairy products at the present time.

We have never received an explanation from the State Department as to why it is all right in terms of foreign policy to negotiate face-to-face with the Soviets on the sale of grain and somehow or another it is not all right in terms of foreign policy through an open market auction type of sale to allow the Soviets as the highest bidder to buy our dairy products.

Have you any comments on that?

Mr. **Hormats**. I do not accept the notion that we have an embargo on the export of dairy products. But I understand the point you are trying to make.

The concern here, to be very frank, is that there is a difference in the way of financing, shall we say, of other products and certain dairy products.

At a time when we were admittedly very concerned about Soviet behavior, and even more so today, it was the judgment, not just of the State Department, but virtually every Cabinet member that discussed this at a Cabinet meeting, that it would not be appropriate to sell to the Soviets goods that were, in effect, subsidized by the American taxpayer.

In other words, this would enable the Soviet consumer to buy goods more cheaply than the American consumer, with the margin resulting from the subsidy of the American taxpayer.

That essentially was the concern. Indeed, I understand fully, and indeed fully support the efforts to increase sales of U.S. agricultural exports.

But with regard to the Soviet Union, that particular point was something that many members of the Cabinet did not want us to do.

I understand the problem you raise.

Mr. **Gunderson**. As a follow-up to Secretary Block, would you give us any indication of any possible bright prospects you see for the sale, either through title IV program or regular trade channels of some of our dairy surpluses?

Secretary **Block**. If we are talking about a large volume of them, then indeed we have large volumes. I do not have anything specific in the making right now.

The understanding that we have with New Zealand where we moved a lot of butter, that understanding will be concluding, I think, in June.

I would say sometime after that we must be looking at another way to move some more. That is why we are looking at options.

I do not have any answer on it. Indeed, it is kind of difficult because we run into some international trading problems if we put the subsidized product on the world market.

Yet, we are going to have to get rid of it someway. I think, appreciating the gravity of this situation and the amount that we have, that I will just have to say that we are going to have to come up with something. I understand that.

Mr. **Gunderson**. There is one question I would like to present to all of you.

Three weeks ago, I think it was, I heard an agricultural economist from the University of Minnesota say simply the law of averages pretty soon is going to give the Soviet Union a great grain crop.

When that happens, they are going to be exporting grain, not importing it. The future out there is far more dismal than many of us in the agricultural sector want to believe.

Whether we look at any particular commodity or look at all the commodities and the surpluses at home, there are those who say that if we simply would expand our trade, we could get rid of the entire surplus in any commodity.

Are we perhaps in some kind of a Pollyana world, a pipe dream with excellent prospects of trade abroad? Isn't it a fact that they are not as good as many of us Americans would like to believe that they are?

Secretary **Block**. Let me comment quickly on that. I know the Ambassador will have a comment.

You know, just look at a little over a year ago we lived in a different kind of world. All of the prospects were that we would never be able to raise enough by the year 2000. We will be hungry people.

A little over a year later we have a whole different attitude. A lot of people are saying: "Will we ever get rid of all of what we have?"

The truth really is that none of us really know. All of us probably know more than the experts know. I would just suspect that the law of averages will be that the Soviets will raise a bigger crop, but somebody else is going to raise a smaller crop.

The growth in the world market has been a steady one. It can be documented. There is a steady growing market.

So, I say the prospects do look good. I do not think it is a Pollyana world that we are living in. I think we are being realistic when we say the opportunities will be there and it is a growing market.

We are going to have our ups and downs. In agriculture we have always had ups and downs. Unfortunately, I have to admit this is one of the worst downs we have ever had, if not the worst. It certainly is the worst in recent times. It is very painful, but I just cannot believe it is not going to go back up.

I guess I am the perpetual optimist or I would not have been in the business as long as I have.

Ambassador **Brock**. First of all, every projection I have seen would argue that there is going to be an increase in world demand. It is true that, in most product sectors, the American farmer is far and away the most efficient and competitive producer in the world.

We should be able to take advantage of that circumstance. It is not whether this is causing the Russian problem. It is incompetence. That is not going to change with sunshine or rain.

The Russians simply have a system that is incapable of taking a product from the seed to the growing cycle to market. If they did not waste so much of what they produced, they would not be buying so much now. They do not know how to handle the system and they will not, so long as they operate the kind of system they operate where there is no free market or no incentive.

I want to come back to one question you asked earlier on the dairy matter.

In all respect you cannot have it both ways. This country has taken its two-by-fours, as Mr. Morrison and the others have noted, to the EC on unfair subsidies, on wheat flour, sugar, poultry, and a half dozen other things that we are complaining to others around the world about.

How can we justify doing what we are criticizing others of doing? The problem that we have is that Government action inflated the domestic production beyond the domestic consumption.

It is very difficult, as your representative, in the trade and negotiations are, to go out and argue against the seed subsidies that create an inequitable share of the markets if, in fact, we do not get our own house in order and deal with the problem of dairy products and the domestic problem at home.

We have compounded that problem year after year by actions of the Congress and the administration. Hopefully we will begin to reduce the excesses which are creating the problem.

Mr. **Gunderson**. I have a wonderful response, but I am out of time. I have to wait until another day.

Thank you very much.

The **Chairman**. The gentleman may submit anything you have.

Mr. Huckaby?

Mr. **Huckaby**. Mr. Secretary, if I might follow Mr. Gunderson's line of thought here so far as the outlook for the 1980's, in the 1970's I think everyone agreed there was our track record, which was very good, so far as expanding exports.

Do you really see that continuing in the 1980's? If so, where are we going to get those tremendous additional markets that we would have to have?

Secretary **Block**. I do see the situation. I would not necessarily predict it would be at the precise percentage growth.

But I do not think there is any question about whether there is going to be a substantial growth in export markets. Southeast Asia is growing by leaps and bounds. It is going to continue to grow.

Frankly, I think that China is going to be a huge market. I just have to believe it will be. There is close to 1 billion people there. Where will they get the money to buy it?

People will say that. Believe me, I think they are going to get the money to buy what they need. They are going to be a big growing market for the United States in years to come.

South America has been, and Central America has become, a good growth market for us. We are looking there.

Some of the mature markets such as Japan and Europe—I would like to see growth there. We may see some.

I think the real growth is going to be coming from the developing countries. I would like to think that we could see growth from the centrally planned countries and the Eastern European countries.

But if they are not able to straighten out their economic situation and get into a position where they can afford to buy, they may not be as good a market as we would like to see.

We lost a big market when we lost Poland, but it was not our fault that we lost them. The country is virtually broke. We just cannot sell them food when we have no prospects of being paid.

Mr. **Huckaby**. Thank you.

Now changing the subject, let us take the Caribbean initiative. Would you elucidate on that and how it would affect the sugar price support program, the domestic program?

Secretary **Block**. It should not at all affect the price support program. We spent a great amount of time designing the way that would work.

I would just say that we are quite confident that it will not affect or damage the price support program and the producer should have no fears about this.

Mr. **Huckaby**. Thank you.

Thank you, Mr. Chairman.

The **Chairman**. I recognize Mr. Roberts of Kansas.

Mr. **Roberts** of Kansas. Welcome, gentlemen, to our export revival meeting here. We all seem to be singing the same hymn in the same church pew.

I would like to associate myself with the remarks of my colleagues, Mr. Findley from Illinois, Mr. Bedell of Iowa, Mr. Dorgan of North Dakota, and Mr. Gunderson of Wisconsin.

My colleague's remarks concerned the issue of farm income. If you read the Washington Post as of this morning you see where a former colleague of yours, Ambassador Brock, former Senator Henry Bellmon, said he is going broke. He said he left the Congress and went back to the farm in Oklahoma.

With the interest rates and depressed prices he does not know how he is going to stay in business. That is the situation in my country as well.

I would simply like to state for the record that after reading these statements and listening to the testimony and the questions by my colleagues, I stand in full support of your united effort.

I credit this administration for not imposing an embargo under very difficult circumstances in terms of our foreign policy, vis-a-vis the situation in Poland.

But the embargo yardstick that the people use in my country in Kansas and throughout the district where we normally grow more wheat than any State, is the price at the country elevator.

If we do not have, in fact, a de facto embargo, why was the price at the beginning of this Polish business, around $4 compared to $3.55 today?

That is the yardstick that we use. No statement here in this committee or no question by me or no statement by any Agency official is going to convince the producer that there isn't a de facto embargo taking place.

I wonder if you gentlemen had a chance or opportunity to study the report prepared by Schnitker Associates for the National Corn Growers Association and the effects of the 1980 limitations on grain exports due to the Soviet Union?

It is an outstanding report and for the first time I think it details the long-term cost and alleged benefits of what happens when we use food or agriculture or the farmer as a foreign policy whipping boy.

Mr. Hormats, on page 5, you indicated in your testimony:

> I can assure you that the State Department views a strong agriculture export sector as an important component of our national interest.

My question to you would be: How important? I noted that you have served with the previous administration. Are you born again in your total support of agricultural exports? Or have you been totally immersed in terms of your philosophy since birth?

Mr. HORMATS. I think if you talk with anyone in the agricultural community in Washington, they will tell you my views on promoting agricultural exports were strong 2 years ago and they are strong today.

I believe everyone who is involved and who has worked with me in the agricultural community here can confirm that.

Mr. ROBERTS of Kansas. You were a member of the past administration, but some of the people wore black hats and some of them are the fuzzy-headed types that tried to justify the embargo in terms of Afghanistan and now in Poland.

Mr. HORMATS. The President imposed the embargo.

Mr. ROBERTS of Kansas. I have never been able to understand from the State Department or from anybody in the Defense Department how an embargo that denies my producer a buck or maybe 50 cents at the country elevator, helps Lech Walesa in Poland or some poor peasant over in Afghanistan.

I have never been able to understand that.

Mr. HORMATS. I was not in the State Department then. And, second, my role in the embargo was this. I had nothing to do with the planning and implementation of the embargo except to try to get some items off which had been mistakenly included on the embargo list. You probably know what those were.

So, I am not going to sit here and try to defend, certainly as an economist, and try to give you a strong argument for agricultural embargoes. That is the last thing I want to do.

Mr. ROBERTS of Kansas. My whole point was this.

I know how somebody from the State Department can stand up in Chicago and give a very fine, strong speech before 18,000 people of Polish descent.

I can get 180,000 on the high plains cheering the other way. Other than symbolism, what does it accomplish?

Mr. HORMATS. What I can do is this. I can simply explain the impact, which was in the report that you mentioned, the one by Schnitker. I can tell you what happened.

Over a period of time we lost not only the immediate sales, but we gave other countries, Argentina being one and the Europeans another, an opportunity to get into the Soviet market in ways and to degrees they had not before.

Therefore, there were both short-term and long-term structural costs. The structural cost is one that we will be paying for a number of years to come.

Mr. **Roberts** of Kansas. I thank you for that response. I will not wear my welcome out except to say that I agree with those that think we ought to sell the Soviets anything they cannot shoot back and utilize any possible tool we possibly can.

I commend you for your united effort and hope that will include the Defense Department and everybody else that allegedly keeps bringing up the possibility of yet another embargo which results in a nickel or dime off my wheat price.

I am getting a little bit tired of it, as you can see. I am a little thinskinned about it.

Mr. **Hormats**. I am sure we all agree with your point.

Mr. **Roberts** of Kansas. Thank you.

The **Chairman**. Mr. Albosta.

Mr. **Albosta**. Thank you, Mr. Chairman.

I want to commend both Secretary Block and Ambassador Brock for the efforts they have put into trying to bring about a better understanding of our problems in international trade.

I also think it is important to point out that we have a continuing problem in this country and with surplus dairy production.

I wonder why we have not done something to bring about some bargaining. I brought this subject up to you, Mr. Secretary, some time ago.

Let us look at the facts. We help the butter program and the dairy program in this country. Why not make a deal with Mexico? Why not make a deal with some other country so that we specifically designate that trade for that oil to go into our strategic reserve system where no one would complain.

The American taxpayer would agree, I think, it was a good idea.

I would like to have that question answered by you. It could be in writing, if you would care to. I have several other questions to get into. Unfortunately, time will not permit them all.

Earlier this year President Reagan announced a trade policy for the Caribbean. I am very concerned about what is going to happen to our sugar program in this country.

I know Mr. Huckaby a few minutes ago asked that question. You seemed to give assurances that nothing would happen to our domestic program.

Where are we going to get the quota from? I think that should be specifically pointed out. Is it going to come out of our import quota or is it going to be added to our domestic sugar supply?

If it is added to our domestic sugar supply, it cannot do anything but depress the market. So I think if you give me the answer to that question, perhaps right now would be the best time to do that.

Secretary **Block**. Let the Ambassador answer that.

Ambassador **Brock**. The intent of the program is to try to constrain the amount that would come in to 110 percent of the historical average of the last 3 years from the three principal suppliers in the area—the Dominican Republic, Panama, and Guatamala.

The other suppliers will be treated as they are treated today under the GSP approach. They are minimum suppliers and should not have an impact.

In all honesty, I think the displacement will occur in international competitive terms.

We hope that we have structured and we have tried carefully to structure a program that would not undercut the domestic program. There was concern last fall when the farm bill was passed that it would be very difficult to achieve both objectives.

We tried very hard to do that. If you have suggestions as to how further to improve that, I would welcome them.

Mr. **Albosta**. I would be glad to give you some suggestions. I will see that they get to you in writing.

Ambassador **Brock**. Thank you.

Mr. **Albosta**. I also am interested in knowing whether the Department will be sending legislation to implement the new trade initiative to the Congress, and specifically whether this committee will have the opportunity to review that legislation. It could be sent over to the Ways and Means Committee without referral to the Agriculture Committee.

I would be less than honest with you if I did not say that I believe this committee ought to review that particular legislation also.

Ambassador **Brock**. We hope to have it to you this week, certainly no later than next week. The question of referral you will have to discuss with the Speaker.

Mr. **Albosta**. You could request this. I will get a letter to him and the chairman also would be in agreement that the committee ought to review this.

I think that the quotas themselves are what is really concerning this. I will get into that specifically with you.

I have a couple of other things and one in particular. In reading something that came out recently in a newscast, a news bulletin, the next ultimatum to the Soviets is "dead-ahead."

It is in the Pro Farmer Bulletin that is sent out to many farmers across the country. It says:

> A high level Administration team will head for Europe within the next two weeks. Their mission? To dicuss with our allies further sanctions that could be applied against the Soviet Union, Poland, and possibly the entire Eastern bloc of European countries.
>
> A total credit cutoff could be in the making. The Administration has been inquiring among the U.S. grain companies as to the amount of credit they have granted on their own to the Eastern bloc countries.

The question would be: Would they go along with the credit cutoff? According to this bulletin, they have extended about as much credit right now as they can afford to extend and probably would go along with that.

What is that going to mean if this does happen and if this does take place? What does that mean to American agriculture pricing systems?

Secretary **Block**. First, I would not necessarily predict it would happen. In fact, I do not precisely know what will happen. I think probably whatever happens, is going to be dealt with as much in the context of the simple business question of how much credit has already been lent to whichever country we are talking about.

If you are talking about the Soviet Union or other countries, and how credit worthy they are, I think that is going to be an important issue.

It is going to probably be decided upon primarily by the banking community more than any government, whether it be in the United States or Europe.

What it will mean to agriculture is this. If this should come to pass, I think it would be difficult to say precisely what it is going to do.

It will make it more difficult for the countries who want to buy whatever they want to buy to get the credit to do it. They would have to sell more gold or sell more something, whatever it is, to get foreign currency to make the purchase.

They would have to decide whether the priority was to buy food for the people or to spend the hard-earned currency on whatever else they want to spend it on.

I would suspect food would be a fairly high priority.

Mr. **ALBOSTA.** Is not the Soviet Union asking for credit on their grain purchases?

Secretary **BLOCK.** I do not have any information specifically. I have been told by the grain companies they are asking for 60 days and 30 days or whatever, which is not necessarily uncommon.

They did it last year, too, to some countries last year.

Mr. **HORMATS.** The concerns that we have with respect to credit relate primarily to Government credit. The United States does not provide Government credit to the Soviet Union.

The concern we have is that European governments subsidize the credits so that today, for instance, the Soviets can borrow from some Western European governments at rates which are perhaps 5 percent or 6 percent below the rates that private people borrow at.

In other words, Western European governments use credit as a way of subsidizing exports to the Soviet Union. In effect, they are subsidizing the Soviet industry at the expense of the Western taxpayer.

Second, we are concerned about the overall exposure. We do not think it is prudent for Western banks to build up a large exposure so they get themselves in a Polish type situation with respect to the Soviets.

Those are the two types of concerns that we have. The short-term print credit issue is not likely to be one that will be focused on in great detail.

The **CHAIRMAN.** Do you have further questions?

The gentleman will bear with us and we will come back to you.

I recognize Mr. Emerson.

Mr. **EMERSON.** Mr. Secretary, several of my colleagues last week, Mr. Wampler and Mr. Chappie and I, met with representatives of the Agriculture Department and the State Department and AID to discuss the Public Law 480 program as it relates to rice.

We were concerned. There was a logjam in the Public Law 480 agreements entered into with countries interested in obtaining U.S. rice.

As the Congressman indicated earlier, no agreements have been signed for fiscal year 1982 that included rice.

Could you indicate how many agreements you anticipate would be signed very shortly that would include rice?

In other words, did our meeting help at all in breaking the logjam?

Secretary **Block**. Your meeting did help. There is a push now to get something done in closer cooperation among the agencies. I do not know if anyone has any specific comments on any agreements on rice. I do not have any in front of me right now.

On other Public Law 480 programs we are working on others. Does anyone here have anything on rice?

I will have to get you some details on that, or somebody else could comment on it.

Mr. **Emerson**. Thank you.

Secretary **Block**. I think I would have to provide that for the record.

Mr. **Emerson**. Thank you.

The **Chairman**. Without objection, that will be placed in the record at this point.

[Material to be supplied follows:]

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

Honorable Bill Emerson
House of Representatives
Washington, D. C. 20515

Dear Congressman Emerson:

This refers to the question raised on Public Law 480 Title I/III programing during the March 9 House Agriculture Committee hearings on U.S. agricultural exports and trade.

Since the meeting last week with you and several other members of the Agriculture Committee, we have made progress in programing rice and other agricultural commodities. On March 8, a Title III agreement was signed with Bangladesh which calls for wheat, rice, vegetable oil and cotton exports valued at $55 million. The rice component in this agreement is $6.4 million, which would purchase about 23,000 tons of rice at current prices.

We also have moved ahead in our negotiations with other aid recipients. Over the next two weeks we expect to sign seven additional P.L 480 Title I/III agreements, three of which will contain $26 million for rice, providing for the purchase of about 94,000 tons of rice.

Please be assured that the Administration recognizes the importance of expediting rice and other agricultural commodity programing under P.L. 480 and we are working diligently toward that end.

Sincerely,

John R. Block
Secretary

Mr. **Emerson**. It is good to have you and the Ambassador and your colleagues with us this morning. It is a tremendously important subject.

I know of your commitment to the export sales. I want to do everything I possibly can in any way to help you in your efforts.

Thank you very much.

Secretary **Block**. This committee has been of continuous enormous help to us in trying to accomplish what we have been trying to do.

Mr. **Emerson**. We would be glad to go anywhere with you if there is anything we may say or do to help sell American agricultural products.

Secretary **Block**. Thank you.

The **Chairman**. Thank you very much.

I recognize Mr. Daschle.

Mr. **Daschle**. Thank you, Mr. Chairman.

I understand and I see the Ambassador is just having to leave.

The **Chairman**. He has a time problem. I asked the Ambassador if there are any further questions we would ask the members to submit them in writing. He has agreed to respond to them promptly.

Thank you very much for being with us.

Ambassador **Brock**. Thank you.

The **Chairman**. Please proceed.

Mr. **Daschle**. There was a statement you made in regard to the world supply. Maybe it is a prospective difference that we have.

You had mentioned a couple of years ago that there was a great concern about an undersupply worldwide.

Now there seems to be such a surplus that we really do not know what to do with it all. I do not know if the situation has really changed in the 2 years.

From my point of view I think we still have an incredible shortage worldwide, or at least a distribution problem that has not been addressed.

I think that was the focal point of the Global 2000 report. We have incredible areas where severe malnutrition and starvation occur. We have not dealt with that at all. In fact, I think we continue to fail in trying to deal with this.

We have a local supply problem, a domestic and a national supply problem, a supply management problem. Yet, I think we still need to grope with that problem.

I would hope that this administration would understand that there is a difference between a national surplus and an international distribution problem, to say the least.

Second, I am sorry that the Ambassador had to leave because he—and to a certain extent you, Mr. Secretary—relates to the policies of our European competitors as being unfair.

It concerns me that we look upon that policy as one which is unfair. If it is our perception that it is unfair, then I think we should demonstrate its unfairness to the international community.

In so doing, we would somehow eliminate it from that point of view.

I would like to have you elaborate a little bit on how you think it is unfair to the world community.

Secretary **Block**. How I think it is unfair for clarification? Or how I think it is unfair that the European Community—about their trading practices?

Mr. **Daschle**. Yes; I assume you are referring to subsidization.

Secretary **Block**. I frankly think it is almost self-evident that it is unfair to the producers of the American farm or the producers in Canada and Australia and other countries that live in the world market system.

Mr. **Daschle**. Let me ask you this. Do you feel it is unfair or that it puts us at a severe disadvantage?

Secretary **Block**. Both.

Mr. **Daschle**. I think we agree that it puts us at a very severe disadvantage. Why is it unfair?

Secretary **Block**. Maybe it is semantics. Maybe unfair is not the right word. It does put us at a severe disadvantage. There is no question about it. They take advantage of us when they buy markets with their Treasury.

To me, that is unfair play. That is dirty pool.

Mr. **Daschle**. Is there anything preventing us from doing the same thing except for a difference in philosophy?

Secretary **Block**. The only thing that prevents us from doing it is that we contend that is not within the international trading rules. That is cheating on the international trading rules.

Frankly, we would rather not play the game that way. We are calling them to the task for doing it that way through the GATT mechanism.

Mr. **Daschle**. I feel it does without question put us in a severe disadvantage. We can play by the same rules. It is just that most administrations choose not to do so.

We have an opportunity to meet with our Canadian friends and our Australian and Argentina friends. I think we can demonstrate that the four of us can do this without a tremendous amount of subsidization. We can count on that kind of policy, but we choose not to do that.

The point I am making is that I think we have tools that for various reasons we choose not to use. That is not really to discredit their policies as being unfair.

It is simply putting us at a severe disadvantage.

My last question before I leave is this.

Mr. Secretary, do you believe there is any kind of a political connotation to the fact that the President will not meet with the delegation of Republicans and Democrats about the farm issue?

Is it a political issue? Is it the fact that two Democrats asked for the meeting initially? What is it that would cause him to meet with a couple of colleges, such as Clemson University, and not meet with 42 Members of Congress about the state of agriculture.

Secretary **Block**. I talked in particular with Mr. Duberstein. He is working on setting up a meeting. I do not have any more details than that. I do not have the date.

But I am convinced there will be a meeting. Frankly, I welcome it. It is one more opportunity for the President to hear about the problems of agriculture. I applaud the effort.

Mr. **Daschle**. I thank you for testifying. I commend you for the good work you are doing.

I thank the chairman.

The **Chairman**. I recognize Mr. Hansen.

Mr. **Hansen**. Thank you, Mr. Chairman.

Mr. Secretary and Mr. Assistant Secretary and Mr. Ambassador, I am glad to have you here.

I would like to ask you a question with regard to the President's message recently and the idea that we are going to free up our trade policies in the Western Hemisphere, particularly with regard to the Caribbean.

There are commodities here such as sugar which are very competitive with U.S. producers.

In this light, I am just wondering if we have given enough real thought to what we can do to protect ourselves from unfair competition when it arises?

I do not think any of us can really be against free trade if we get fair trade. However, I would like to show an illustration of a blatantly unfair marketing practice using a product which is fairly well known—the Idaho potato.

Using this marketing bag, we find Idaho potatoes being grown in Montreal, Canada.

They are distributed out of Montreal by the so-called Idaho Potato Co., so under very misleading circumstances, they become Idaho potatoes.

I do not know that this "Brand X" of potato will do that well when it is used as a product. But nevertheless it is deceptive to a lot of people and, whether it hurts Idaho growers or farmers in other States, who suffer as consumers purchase what they think are U.S. potatoes, it is a fraud, and we are going to find ourselves at some disadvantage.

I would like to know what you have to say about such practices.

Secretary **Block**. I guess generally speaking in regard to the Caribbean initiative—and that is the first issue that you brought forward, and as I responded earlier to your question, I do not see a problem with the sugar program. It is not going to create a problem with the sugar program.

We spent a lot of time working on it. The conclusion was that the last thing the Department of Agriculture wants to do is take on heavy amounts of sugar. We are going to protect that.

If you do see any problems or we do, we are going to change it. I do not see any problems. It looks good.

In the area of other kinds of competition, fair or unfair, beyond that of sugar, I can just assure you that we are going to work to insure that the competition is fair.

If it is fair we are willing and ready to accept it in agriculture. I think we can handle that also, so long as it is fair.

Mr. **Hansen**. I think the things that concern many producers and growers in the United States is that foreign countries do not have such a free market operation as we do. In many cases there are subsidies of interest rates and there are subsidies of growing and marketing circumstances that make it very difficult for our products to compete fairly.

Secretary **Block**. I think this has to be taken into consideration when we are looking at some of the competition that we may see down the road.

Mr. **Hansen**. Mr. Secretary, and all of you, there is one major overriding issue that disturbs a lot of people. They wonder whether the commitment of finances by the United States, or through the United States, through the guaranteed programs of the CCC, or various international development banks that we have, or through the private banking sector and the big banks of the world, are getting America so intertwined in the affairs of the world that we find ourselves giving away our national shirt and the taxpayers' shirts to bail ourselves out of one foreign policy crisis after another.

A great many people believe that the Panama Canal Treaties were a result of the fact that Dictator Omar Torrijos had $2 billion worth of loans he could not pay to the big banks and that the Treaties were, more than anything else, a financial contrivance to see that the banks got their money. Some people likewise feel the Iranian situation was a similar circumstance where a big banker precipitated a takeover of the U.S. Embassy by bringing the Shah into the United States against all warnings, and there was nothing going to alleviate that crisis until the big banks got paid their $5 billion of shaky loans right off the top, while all other creditors ended up on a priority list working off an escrow.

Then we come to the Polish situation, where again we find ourselves involved with big bank loans and politics—this time it's $27 billion. And other nations have similar intertwining complications such as the German situation where they have a gas pipeline at stake and have encouraged their banks into a catch-22 situation.

We have been building truck factories, tractor factories and invasion highways to Afghanistan for the Soviets and our financial involvement is not only depriving us of a free hand in stopping aggression, but it is costing us dearly in defaults and giveaways. What can we do to end the nightmare George Washington predicted when he said:

"Avoid entangling alliances."

We now find ourselves going both ways at the same time. While the President is trying to save the labor movement in Poland and preserve a spark of freedom, the big banking interests are cheering on the repressive movements of the Communist regime which will save their money for them.

Secretary **Block**. I would just have to say I am convinced the President is charting a clear and solid course and is trying to provide leadership.

I have been in a lot of Cabinet and Council meetings. I have to say that I do not, in any way, feel that the banking industry of this country has any undue influence on this administration.

I think that every segment of our economy has some influence. Certainly I should hope that agriculture has its share.

But I do not feel that the banking institutions are carrying any unknown exceptional influence.

Mr. **Hansen**. I hope not. However, I'm afraid the cases I have cited give ready proof that this has been the policy, or lack of policy, and, in fact, we are still living with the carryover consequences in the Polish situation.

I hope our policies from here out will leave us more free to manage our affairs for our own benefit.

Mr. **Hormats**. I would strongly concur in Secretary Block's point that, while clearly all interests are taken into account, I do not think the banking community has undue sway and is able to distort the policy of the United States on these issues.

Obviously we try to work with the banking community as we do with other communities.

Second, on the question of unfairness, the point was raised by your question and a couple of others. The point here is that I think we should not ask our farmers to have to compete with the treasuries of other countries. That is what happens when other countries subsidize and we do not. I think we are very competitive.

We have a very efficient agricultural system. It gets more efficient all the time. Our farmers ought to get the benefits of their investments and the benefits of their innovation and not have to compete with agricultural export subsidies.

I would hope at some point the European consumers and the European taxpayers would be able to use their own political influence to reduce the degree of subsidies and interventions by the Community which are extremely wasteful of resources on their side, too.

Mr. **Hansen**. Thank you. I must say, it's certainly not easy to explain to American farmers how we can give, through forfeit of a CCC guarantee, $75 million to Polish agriculture when our own farmers are finding agricultural loans so expensive and difficult to get.

The **Chairman**. I recognize you for a quick five minutes, Mr. Evans.

Mr. **Evans**. I would like to explore further with the Secretary the problem of what has been referred to as a de facto embargo of sales to the Soviet Union. I would refer to it as that.

I understand, our policy as a Nation, if there is no dramatic change in the behavior by the Soviets, is that contracts entered into will be honored.

Is that essentially correct?

Mr. **Hormats**. I would just follow up with what Secretary Block had said, which is that, absent any major change in their behavior or policies, we have no intention of taking any actions in the agricultural sector or imposing any broader embargo.

Mr. **Evans**. Let us pursue that a bit further.

I speak from time to time with representatives of the Soviet Union who are involved in the grain trade. I also speak with representatives of the large grain companies.

They tell me why it is probably an admirable policy from the standpoint of the Secretary of State. But, it does not cut the mustard when entering into additional substantial amounts of trade with the Soviet Union, for the grain companies or the Soviet Union.

This is because neither want to take on contractual commitments when there is no assurance that they can be met and it can be changed on a moment's notice.

They, of course, come back and say: "Why do you not say the contracts that are entered into for the next 90 days will be honored." or something of that nature.

I can understand why that is not acceptable to the Department of State.

But it would seem to me, Mr. Secretary, that there are a wide range of options between those two extremes that could be entered into to give people more assurance.

For example, to give you one possibility, we could say, if contracts call for delivery within 90 days, they would be honored.

Another would be that each week the Department would announce that contracts which are entered into that week and that called for delivery within 90 days would be honored.

All of these types of things would give the Secretary of State a great deal of flexibility to take notice of changes in the Soviet position that we did not like while getting the cork out of the bottle in the grain trade.

The Soviet people want to buy and they want to buy now. I am not talking about developing markets over a period of years. Here is something we could do now. It seems to me that has not been adequately addressed over there.

Mr. HORMATS. Let me first say that the Secretary of State seems to be the focus of this discussion. The policy that we are following now has been worked out very carefully among all members of the Cabinet and the President.

The objective of our policy is to give the President himself, not the Secretary of State, but the President a certain measure of flexibility.

On the other hand, I strongly understand the concerns of the agricultural community about the uncertainty of the situation. I think you have reflected it very well.

I have met with virtually every major agricultural group. They have raised the same point.

What we have tried to do, and the Secretary of State's statement that I quoted earlier is one major way of doing this, is to try to reduce to the extent possible the uncertainty or the view that somehow we are ready imminently to put on another embargo.

That just is not the case. On every occasion we have avoided threatening this, we have avoided making that point in any discussions at all.

This is in order to try to give the market a maximum degree of confidence that nothing is imminently planned in this area.

But your points or your suggestions are interesting. I, obviously, cannot make any commitments here, but we are always working with the Department of Agriculture to try to find ways of giving greater confidence to the market without totally tying the hands of the President of the United States.

In that spirit we would be willing to take a look at the suggestions that would achieve it.

Mr. EVANS. I hope you will try to pursue some of the more innovative suggestions than in the past.

It seems to me that you can retain flexibility for the President and still give far more assurance than we give today. It is almost as if we were deliberately trying to discourage them from purchasing.

That, obviously, is too expensive for this country to pursue at this particular point in time.

Let me move on to something else, if I may.

You mentioned briefly in your testimony your thoughts on value added products. You thought there were some great prospects for these products. Could you expand briefly on some specific items that you had in mind?

Mr. HORMATS. In December, Bob Delano came in. We had a long discussion of this issue. He indicated to me the work that was done between a number of the farm groups and the labor unions to try to increase the value of exports.

There are frozen goods, packaged goods, canned goods, processed goods, and so on across the board. His view, and mine as well, is that there is a great opportunity for exporting more of these products, not at the expense of wheat or grains or other things, but as an additional amount of exports.

The problem is that many countries have trade barriers or processing barriers or health standards. We are not familiar with some of these. Some of these constitute barriers to exports of these products.

I would be delighted to share this with you. All of our embassies abroad were first asked to make a major effort to promote these products.

Second, we asked them to give us information on what our own exporters can do and what we can do as a Government to create greater opportunities.

I am delighted to say that we have gotten a number of suggestions for areas where we can improve opportunities in this area. We, obviously, are going to work with the Department of Agriculture and the USDA and with the Export Processing Industries Coalition and the Meat Export Federation and the Soybean Processors and the Farm Bureau and farm cooperatives and other groups to share with them the benefits of this effort.

We would be delighted to share it with you.

Mr. EVANS. Thank you very much.

Mr. VOLKMER [acting chairman]. Your time has expired. I have several questions and some of these relate to answers that will have to be provided by the State Department.

I would appreciate it if you would take these down and submit them to us in writing.

I am sorry I was not here originally, but I had a markup in another committee. You may have already answered the first question. If you have, maybe you can give me the answer again. It should not be very hard.

Was there a projected export in agricultural products for this year, that is, projected exports in dollars?

Secretary BLOCK. I do not have a figure in dollars. It is slightly less than last year.

Mr. VOLKMER. It was $45, it would be about $44. Say it would be about the same.

Secretary BLOCK. Nearly the same. In volume it would be increased, but not in dollars.

Mr. VOLKMER. Maybe you could give me the volume also at a later date.

This is for commodities.

Secretary BLOCK. We will provide that.

Mr. **Volkmer**. Without objection, that will be placed in the record at this point.

[The February 16, 1982, "Outlook for U.S. Agricultural Exports" is held in the committee file.]

Mr. **Volkmer**. Many of us know about problems we have with other countries and some of the things that are coming up.

I would like to know if you would give us some of the problems that other countries encountered coming into this country, such as Japan and the tariffs that we have.

I know about shoes and about leather and about clothing and things like that, but what I would like to know is this.

Can you give us offhand or in writing how we restrict their imports?

Mr. **Hormats**. There are a few things that we could start with. They are concerned about a lot of the cases that have been filed. In my judgment, these are not grounds for concern and it is not protectionism to defend ourselves against subsidies or dumping.

That is one of their concerns. Their concerns in certain areas are those such as dairy products, which were mentioned earlier, where there are import restrictions. There are some other products in the agricultural area that they raise periodically.

By and large, the American market is a quite open one. I would certainly say compared to our trading partners, we have a very open market compared with Japan.

Mr. **Volkmer**. And compared to the economic market.

Mr. **Hormats**. I would say compared with virtually any other country. We are a much more open market.

Mr. **Volkmer**. I understand that you, Mr. Dennin, have an appointment. I have no questions directly relating to commerce.

Perhaps you can understand some of the feeling when I go out to my district and some of the feeling of the Members of the Congress and what some people may call retaliation or protectionist feeling as a result of these.

Mr. **Hormats**. Absolutely.

Mr. **Volkmer**. I hope you can convey this message to the other countries so that they can understand the problem.

Mr. **Hormats**. We do it quite frequently and I must say that I share the frustration of the Agriculture Committee when it finds that it encounters major export subsidies or quotas of other countries. I would be frustrated also.

Mr. **Volkmer**. When I talk with beef producers and breeders they are not making any money. They read about the kind of meat coming in from Australia. They do not know if we are sending any beef to Australia.

What do we send to Australia in agricultural products?

Mr. **Hormats**. I do not know. We stopped importing the kangaroo meat. I do not know what we send to them, but we have a trade surplus with Australia. I do not imagine we send them many agricultural products. They are an agricultural exporter, not a country to which we would be likely to send a lot of agricultural goods.

There are a number of countries in Southeast Asia where there are growing urban populations—where there is a good opportunity for selling more products.

Mr. **Volkmer**. It is that kind of thing that does occur that upsets some of my people. I hope you understand that.

Mr. **Hormats**. I understand that. There are some countries where the likelihood of our exporting a lot more agricultural products is relatively small because they are themselves major agricultural exporters.

Mr. **Volkmer**. You are missing my point. You could tell the people of Australia and the Government of Australia that this occurs, like the English amendment, which was very successful in the House and some of us would still like to see something like that—may very well end up like this. They will not send us much meat here.

Mr. **Hormats**. I think they are aware of that.

Mr. **Volkmer**. The other thing that does not have to do basically with agriculture, but I think you can see some sentiment—not a great deal, but some sentiment in Congress is this. This is in regard to the European Common Market and what some of us feel relating that to.

There is the effort to protect that area, so-called, from the Russian menace and also the amount of funds that are going into that now by this Government and the amount that is going in from the members of Europe.

You see more sentiment. You see more subsidizing agricultural exports and not building up the military defense within those countries. Then some of us think if the EC does not think much of their own defense, maybe we should cut back our effort.

I just wanted to let you know that. I know that is not within your realm, but I think that cutbacks are a distinct possibility up here if this type of thing continues.

Mr. **Hormats**. I understand that. Let me just say that the European Community, or the NATO European members, would argue that over the last several years the United States has reduced its level of military expenditures as a percentage of GNP and many of these countries have increased theirs.

I think one has to look at the last decade or two. They could utilize their money better than they do now, that is, better than providing the agricultural subsidies. I agree with that.

Mr. **Volkmer**. I think better than meeting other commitments they have made in regard to the defense of their own countries.

I understand the Secretary has another meeting also. So, we are going to adjourn right now until 2 o'clock.

Thank you very much, Mr. Secretary.

[Recess taken.]

The **Chairman**. The committee will come to order. We continue with the oversight hearings to discuss the general agricultural export and trade situation. This afternoon it is my happy privilege to welcome the distinguished commissioner of agriculture of the State of Texas to open the afternoon hearings.

Commissioner Reagan Brown, we are very happy to have you here. We welcome you, and we will be happy to hear from you at this time. You may proceed.

STATEMENT OF REAGAN BROWN, COMMISSIONER, TEXAS DEPARTMENT OF AGRICULTURE, REPRESENTING NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Mr. **Brown**. Mr. Chairman and ladies and gentlemen and distinguished members of the committee, it is my privilege to be back and testify again. We always appreciate being here and today our Commerce Commissioner of Agriculture from the fourth largest producing agricultural State in the Nation, and we are number three now in Texas in agricultural exports—but I come not only representing the State of Texas today, but the National Association of the Departments of Agriculture. All of the Commissioners have asked me to come to represent them here today in this testimony.

I appreciate this opportunity to appear before the committee on behalf of the National Association of State Departments of Agriculture and share with you our views and describe our activities relating to agricultural exports.

We are very pleased by the timing of this hearing because it coincides with the national meeting on agricultural marketing which our association is sponsoring here in Washington, D.C. More than 200 farm and agribusiness leaders and State officials will gather at the Hotel Washington this afternoon for the opening session of a 2-day meeting that will focus on improving the farm economy by stimulating markets for U.S. food, feed, and fiber. Forty-two of our States are represented by their commissioners of agriculture, as well as a number of farm and commodity groups, export associations, agribusiness trade organizations and representatives from the administration and Congress.

We will be discussing such topics as export credit and financing, market development and market access, and the role of U.S. food assistance throughout the world. We expect to adopt a set of recommendations for strengthening domestic markets and boosting export sales. These recommendations represent the best thinking of a broad cross section of the agricultural community, and will be presented to Congress, the administration and other interested parties.

I think you will find them extremely helpful in identifying areas where relatively minor and inexpensive changes in U.S. Government policy would give our products a far more competitive edge in the world marketplace. For example, we will be looking into such issues as the use of the recently authorized export credit programs, the role of the Export-Import Bank, the possible need for "export trading companies," and a much, much, much more aggressive use of the Public Law 480 programs.

This national meeting is only the most recent in a long line of export-related programs and activities undertaken by State departments of agriculture in recent years. Our export marketing programs at the State level are not as well known as they deserve to be, and I would like to take this opportunity to describe briefly some of the major programs.

The State departments of agriculture sponsor four regional export trade associations with offices in New York, Chicago, New Orleans, and Vancouver, Wash. The western regional group, which goes by the name of the Western U.S. Trade Association, or

WUSATA, was just established in 1979, and it has already developed an effective promotional program in the Pacific basin markets.

The States have focused much of their resources on U.S. trade shows that bring foreign buyers to the United States. Each one of our association's four regions has recently sponsored or cosponsored export trade shows with very gratifying results. The southern region, the 15 Southern States including the Virgin Islands and Puerto Rico, and I have the high honor to be president of this association, sponsors a trade show in New Orleans. At the last show, more than 300 buyers were there and the week after next we expect an even greater turnout at this show.

Building on these successes, we are now planning a giant national export trade show that will draw on the resources of all 50 States in cooperation with the U.S. Department of Agriculture's Foreign Agricultural Service. This show is called the NASDA National Food and Agricultural Exposition. It is scheduled to open May 17, 1983, at the World Congress Center in Atlanta, Ga. Designed for the export trade only, the 3-day event is expected to attract over 1,000 foreign buyers who will view products offered by as many as 700 different agricultural firms in this Nation, and this show in itself should add over $100 million to our export business in 1983 alone.

Perhaps the most exciting prospects for dramatic growth and export trades during the decade of the 1980's is the area of processed and consumer-ready food, feed, and fiber products.

An increase in the export volume of these "value-added" products would bring very substantial benefits to our entire economy.

The States have long recognized the importance of value-added exports, and we hope to make a big contribution in this area. Our upcoming trade exposition is strongly oriented toward value-added products such as frozen, canned, and dehydrated fruits and vegetables, processed meats, poultry and dairy products, snack items and candy, baked goods, liquor and soft drinks.

The exposition will include regional export seminars, specifically designed to accommodate the needs of small and medium-sized U.S. firms that have export potential but little or no experience with foreign markets. These small and medium-size U.S. firms represent a large untapped export resource where a small investment of effort can pay handsome dividends.

Our association believes that agricultural exports are the key to farm and ranch prosperity in the 1980's. State governments have resources and capabilities that can supplement and reinforce the promotional efforts of the Federal Government and the private sector. We look forward to working with the committee and identifying new opportunities for strengthening farm and ranch income through expansion of export trade.

Thank you for this opportunity to participate in the hearings and share our views on a subject of vital and immediate concern to all sectors of the food and agriculture industry. I respectfully request permission to submit the recommendations of our national marketing meeting to the committee so that they might be made a permanent part of this record.

The CHAIRMAN. Thank you.

[The material referred to follows:]

RECOMMENDATIONS

OF THE

NATIONAL CONFERENCE ON MARKET STIMULATION

PREFACE

The National Conference on Market Stimulation was called by NASDA for the purpose of providing a Forum where all parties concerned with the state of the farm economy could exchange ideas, develop cooperative plans and make recommendations that will improve our marketing capabilities both in the U.S. and abroad.

The recommendations developed at the Conference and included in the report are the recommendations of the Conference itself and do not necessarily reflect the views of NASDA or any organization or firm that participated.

More than 200 agriculture leaders from all over the U.S. participated in the development of these recommendations. It is hoped that each individual organization or agency can take the recommendations developed and utilize them in developing their own policy.

The recommendations of the Conference will also be distributed to Congressional leaders and Federal agencies.

The National Association of State Departments of Agriculture wishes to thank each participant in the Conference and each person who worked in any way for the success of this highly important meeting.

OVERSEAS MARKET DEVELOPMENT AND MARKET ACCESS

1. The Conference urges the Secretaries of Agriculture, Commerce and State and the Special Trade Representative to pursue with renewed vigor the elimination of European Community export subsidies and the barriers to trade in the Japanese market. We also urge the elimination of non-tariff barriers around the world including plant and animal health regulations .

2. The Conference strongly supports the passage of the Export Trading Company legislation -- S 734 and HR 1648 -- to allow U.S. organizations to more effectively compete in world markets.

3. The Conference urges the President to enunciate a new Economic Doctrine for Agricultural Exports stressing that there will be no interference with exports of agricultural commodities short of the breaking of diplomatic relations with a country or a coordinated Free World response to warlike action. We urge Congress to ratify such an international economic doctrine and firmly establish it as national policy. This doctrine should recognize that

foreign policy decisions must include a significant emphasis on economic and trade considerations and there should be a mechanism and close working cooperation for achieving this.

4. The Conference encourages producers, processors, and regional organizations to develop lists of agricultural products not now being exported and then work with the Foreign Agricultural Service to identify and develop markets for those commodities.

5. The Conference urges that additional emphasis be placed on the export of "value-added" agricultural commodities.

6. The Conference urges the Secretary of Agriculture to work closely with the U.S. Department of Transportation on export transportation problems that are impediments to exporting.

U.S. WORLD FOOD ASSISTANCE

The general view of the Conference is that food assistance programs will not solve the short-term economic problems affecting American agriculture. However, in the long-term, food assistance programs of the nature of Public Law 480 can prove extremely helpful in establishing new markets for agricultural products and in promoting economic development which, eventually, will generate new markets for agricultural products.

Additionally, food assistance programs provide the opportunity for the citizens of this nation to express their humanitarian concern for less fortunate human beings throughout the world. Food assistance programs should have as their purpose: a) humanitarian concerns; b) market development; c) economic development; d) the opportunity for a coordinated response by this country; and e) on occasion, political pursuasion.

1. It is the recommendation of the Conference that food assistance programs should be conducted to eliminate world hunger and to stimulate economic development in underdeveloped countries. It must be realized that world food assistance programs will have little impact on reducing burdensome supplies of agricultural products particularly if current funding levels are maintained.

2. Additionally, the Conference recommends funding of the "GSM-301 program" (intermediate term credit). An adequately funded "301 program" will provide money to develop the infrastructure and storage capacity needed if less developed countries are to purchase U.S. agricultural products in sufficient volume to affect the economic well-being of American agriculture. It should be realized that the 301 program is a credit program and not a grant program.

3. Additional discussion revolved around the requirements of current food assistance programs, that 50 percent of the food provided through these programs must be moved on U.S. flagships. It is the Conference suggestion that this facet of these programs may create conditions where programs that are generally considered to be a humanitarian concern may, in fact, be a maritime subsidy program. This issue was addressed with a general understanding that maritime requirements merit consideration if we are to preserve needed funding for these programs. This being the case, however, it would seem advisable that this funding should come from sources other than USDA funds specified for food aid.

- EXPORT CREDIT AND FINANCING

The Conference encourages all possible efforts to sell and otherwise export U.S. agricultural products, both raw and processed for cash.

At the same time, it is recognized that in many instances, credit, on competitive terms, is an essential tool in developing additional export sales of agricultural products and maintaining and expanding existing markets, particularly in middle income and developing countries.

In addition to developing governmental sources of export financing, efforts should be made to evaluate and publicize the availability of other credit suppliers. For example: agricultural cooperatives, under the Farm Credit Act Amendments of 1980, have new authority to finance agricultural exports that could result in increased sales.

1. The Conference recommends immediate funding in FY 1983 of the CCC Export Credit Revolving Fund at a level of at least $1 billion. A feasibility report in support of this recommendation should be prepared and included in the final report or as an addition.

2. The Conference recommends that the Administration seek funding for financing of needed facilities abroad to allow developing nations to better receive, store, transport and process U.S. commodities. Sources of funding that should be explored include the World Bank, Agency for International Development, Asian Development Bank, the Inter-American Development Bank and the Export-Import Bank of the U.S.

3. The Conference recommends that the Administration pursue using mixed credits (a combination of commercial and concessional credits & grants) to increase U.S. Agricultural export competitiveness in the developing world.

4. The Conference recommends that the Federal Government study the impact of the Cargo Preference Law and the effectiveness of the concessional sales (PL. 480 -- Food for Peace) programs of the U.S. Government.

5. The Conference recommends that USDA update its studies of competition credit practices and recommend how any disadvantages can be corrected.

6. The Conference recognizes that foreign policy considerations, have in the past unduly and adversely influenced the availability of agricultural export credits, thereby reducing opportunities for making additional sales. It is recommended that funding under such circumstances be made from sources other than existing agricultural export credit authorities.

Further the Conference urges that all sources of financing be examined in our effort to gain greater access to world markets.

DOMESTIC MARKETING SYSTEMS

A broad range of issues and problems affecting the price farmers and ranchers receive for food and fiber marketed in the United States were considered. These issues included, among other items, the persistence of low farm prices, the existence of institutional barriers to marketing efficiency, the impact of transportation costs on the prices farmers and ranchers receive for their products, the role of commodity futures and future option trading, the need to redirect marketing research, the prospect of greater producer involvement in marketing promotion programs, the lack of consumer awareness of the true costs of producing food, and the possible need to strengthen producer bargaining rights.

1. The Conference recognizes some value in the concept of a national, farmer-owned marketing cooperative as proposed by the American Agriculture Clearinghouse, and suggests that the concept merits further investigation by interested parties.

2. The Conference urges Congress to enact H.R. 5268, a bill to permit State inspected meat and poultry to enter interstate commerce.

3. The Conference urges all appropriate agencies, including the Cooperative Extension Service, the land grant universities and state departments of agriculture to work together in an educational effort to help improve producer knowledge of marketing systems and enhance market management skills of producers.

4. The Conference encourages greater producer involvement in self-help promotional sales programs that are funded and controlled by producers themselves.

5. The Conference recognizes the need to eliminate, where possible, institutional barriers to marketing productivity and efficiency. Examples of such barriers are the lack of standardization of shipping containers and the lack of

uniformity among the States with respect to tractor-trailer weight and length requirements. The Conference urges further research to identify institutional barriers to marketing efficiency and specifically supports the enactment of S. 1402 -- a bill to establish nationwide truck length and width standards.

6. The Conference recognizes that the development of markets for value-added food and fiber products benefits the entire U.S. economy. Consequently, the Conference supports a redirection of market research programs toward a greater emphasis on marketing of value-added products.

7. The Conference supports the Congressional reauthorization of the Commodity Futures Trading Commission and further urges Congress to give full consideration to the expansion of the futures options program to include agricultural commodities.

8. The Conference urges Congress to enact H.R. 4975 -- a bill to amend the Agricultural Fair Practices Act of 1967. This legislation would give farmers and ranchers needed bargaining rights by strengthening the bargaining authorities of marketing associations.

9. The Conference calls attention to the deteriorating state of many of the nation's roads and bridges which are vital to the farm and ranch economy. The Conference calls for increased funding of needed road and bridge repairs, and opposes any use of funds from the Highway Trust Fund for purposes other than road and bridge construction and maintenance.

10. The Conference does not object to the assessment of reasonable fees from users of the nation's publicly supported inland waterway system. However, the Conference urges Congress to assume that user fee rates are based on fair and equitable criteria so that no commodity sector is subsidized at the expense of another.

11. The Conference recommends further study of the methods and technologies currently used in grain weighing to assure that grain producers are not being shortchanged.

12. The Conference calls attention to the lack of knowledge on the part of the general public about production agriculture and supports an educational program to increase the awareness of American consumers of the time, costs and risks involved in the production of food and fiber.

13. The Conference urges that those in policymaking positions in the Federal Government place a high priority on the necessity of reasonable prices for our farm and ranch commodities in the conduct of foreign trade. Reasonable prices might very well be defined as the cost of production plus a modest profit.

Mr. **Brown**. Now, let me speak as the commissioner of agriculture of the third largest agricultural exporting State in this Nation.

I just recently returned from the Republic of China. I sold them 450,000 bales of cotton and 17 million tons of grain, with all of us working together.

I know now the Premier of the Republic of China by his first name. I can call him on the telephone and talk to him.

They took us out to the socket wrench factories in Taiwan, and Congressman, they have got enough socket wrenches in Taiwan to give everybody on Earth 15 sets. They have got more brass candlesticks and monkeys, and bicycles and motorcycles, and pocket calculators, but they don't have any food. They are going to export it.

South Korea, 40 million people, 70 percent of the country is mountainous. They're not saying "Yankees, go home," over there. If they do, they say, "Take me with you." We are developing relationships there with those people. And then we came on to the European Common Market where we worked extensively with them. They know our products from Texas. They know the Texas blue jeans and the grapefruit.

You go into a hotel in London, there will be a card on every table that says Commissioner Brown from Texas recommends grapefruit.

In the great land of Mexico, I have five livestock export pens along the Rio Grande, including one at the airport at Houston.

During the past 12 months I have exported over 200,000 head of livestock all over the world. Much of this goes into Mexico. They milk 80,000 dairy cows down there every day. They produce 25 percent of all the milk produced in Mexico, but they don't have any dairy replacements.

We are making contracts now that will supply 12,000 holstein heifers a year to replace them.

Mexico City has 2 million more people than all of the State of Texas put together. You can invest your money down there this morning for about 32 percent in CB's. Mr. Forrester here with me runs our Texas Federal Inspection Service. We do the inspection for the country of Mexico because they don't have an inspection service and a lot of their products going into other countries are inspected by us.

But if you can invest your money for 32 percent, why grow the tomatoes? Why grow the bell peppers and the onions? And so we are $100,000 behind this year in our inspection fees in Mexico because they are going out of the vegetable business, and they have bought 10,000 tractors recently because if you own a small farm operation in Mexico, you eat all the beans before they get to Mexico City, and there are 17 million people that we are supplying the rice, the soy beans, and the grain to, as well as a lot of other things, and this is increasing.

A man from Paraguay hit my office the other day. He had $250,000. He wanted 90 cows and bulls, he wanted 40 holsteins and 10 quarter horses, and he bought the airplane and we loaded 150 head of livestock on that airplane in Houston. We can dip, lift them on the plane. If you have never made a trip with 150 head of cattle and horses in a plane, that's an experience too.

He represents 10,000 Mennonites that live in Paraguay that are tearing out the jungles and making new land, and they are looking for breeding cattle.

Now, it takes me $4,000 to get a bull from my export facility in Houston to Egypt, and if you have a $50,000 cow and a $50,000 bull, you mate them, you get a $50,000 calf but it takes 9 months for that cow to produce that calf.

In Texas we are getting as high as 88 fertilized embryos out of one bull and one cow mating. Actually, I have got cows that have produced eight calves in one year. We mate the $50,000 bull and $50,000 cow; we wash out the embryos from the cow and put it in a test tube, freeze it with nitrogen. Twenty-four hours later we mate it with a $50 cow, and that calf is immune from the diseases and insects of Egypt.

Five hundred million people in the world are hungry. Fifty-eight thousand have starved in the past 24 hours. At the same time, 327,000 were born, and that is my mission as commissioner of agriculture of Texas—that no one will ever go hungry.

We are about to turn the corn, which takes 37 percent of all the fuel needs in this country in fertilize—and turn it into a lagoon. Our scientists will do that. I believe it will be accomplished very soon.

Now the corn plant will gather the nitrogen from the air itself. Photosynthesis—the soy bean plant can convert 1 percent carbon dioxide into oxygen. We have got it up now to 12 percent, so you don't have to make leaves and stems. You make beans.

Many of the countries of the world do not have the dollars. I was with an African—I'm going to lead a trade team into Africa later this fall—just a few days ago one of the leaders coming to my office almost weekly—he's 20 hours away from his country and he shows them how to fertilize—put this much fertilizer under the corn. He is 20 hours away from where we are using computerized tractors and nitro blocks on our plantings. He didn't have any money. He has got copper, lumber, phosphate. We are working now on a tremendous barter system where we can trade.

As to exports, that is the one thing that we have got. There's not a Communist country in the world that can feed themselves. We have an agricultural capability in this country to produce more food than we can use, and use it to get our dollars back from petroleum, and the only shortcoming is our farmers making a profit. The name of the game in the free enterprise system is incentive, so I say to you, thank you for working hard on exports. We are going to be working harder on the States. We are going to be out in the world with our suitcases.

As long as there is a hungry baby anywhere on Earth, that will be our mission.

The CHAIRMAN. We admire you, Commissioner. Thank you. We appreciate the fine work that you do, and I personally can attest to the fact that you have been a great leader in this effort in Texas.

We will be very happy to receive from you the recommendations of your associations, and always certainly your wise advice and counsel. Are there any questions?

Mr. **Wampler**. I don't particularly have any questions. I just wanted to commend Commissioner Brown for his statement and for his obvious enthusiasm as to this very vital sector of agriculture.

I hope that maybe some of us can get down to your trade fair in Atlanta in May. I for one would like to view it to see precisely what it is. We have heard about them, and others that are held throughout the country. It makes a great deal of sense to me.

I would like to ask you this question. Do you find good cooperation between, say, the producer group cooperatives and others who are exhibitors? Do you find any reluctance on their part to participate in your trade fairs?

Mr. **Brown**. That is true. We have splendid rapport from the ones that are exhibiting in our trade shows on a regional basis like the corn growers and these types of things.

As we come into the Atlanta show, we expect that same cooperation.

Mr. **Wampler**. What steps do you take to publicize your exhibits—your show—particularly among those that will be foreign buyers? What method do you use to publicize it?

Mr. **Brown**. Yesterday all of the commissioners were here at a meeting getting ready for the start of the national meeting that will start this afternoon. Most of yesterday afternoon was spent developing the Atlanta shows. We hired a staff—the Foreign Agriculture Service is underwriting about $600,000 of this effort. These brochures will be printed in every language of all countries of the world. Fancy brochures are being prepared. I have pledged that I will have 30 of our producers from Texas. The booths are $500 a booth, and I don't know when in the world a company could get the exposure of 600 or 700 international buyers for $500, plus the other expenses connected with it, but the commissioners of agriculture are dedicated to make this a tremendous success.

Now, one of the things in America is we have always been domestically oriented here. We went to Boston and a lot of us went to New York. Fruits and vegetables went to Cincinnati. Now we are learning how in America to mix in the world and in the trade shows in Germany and in others that we participated in, I have cultural attachés, and we are carrying the mission of our products.

We are world traders now. We are learning as we go along to become not just domestically oriented, but worldly oriented.

Mr. **Wampler**. I appreciate that. I, certainly, want to wish you well because I think this is precisely the type of thing we need to be doing more of. Particularly, I think this is a role for Government whether it is the Department of Commerce or Department of Agriculture, or whatever Agency in the Federal Government because it is terribly important.

This morning I asked the Secretary of Agriculture a question that perhaps you are aware of, that the United States and Jamaica recently entered into an agreement whereby we would exchange U.S. corn for bauxite, a raw material used in the manufacture of aluminum.

You alluded in your statement to the fact that you felt there was a great potential, particularly in some of the African nations, for that same type of thing. They barter or exchange because they have raw materials that we can very well use, and we have what they want in the form of the agricultural commodities, whether it is in raw form or manufactured form.

Do you see great potential for this type of arrangement?

Mr. BROWN. Absolutely. Especially in the African nations and South America has great possibilities also. While we have one of the greatest dairy goat research centers in Texas, if some of those tribes could have a dairy goat for the family, they could stop their children from starving. Many of those leaders we talked to don't have enough money to buy goats, but they do have such things as mahogany lumbers or marble, copper, phosphates.

The former Secretary of Agriculture was in Texas the week before last working with the farmland industries, and a lot of the large cooperatives are interested in this.

Now, I believe it could develop very rapidly.

Mr. WAMPLER. The chairman of our committee and I have had a great interest in the goat research unit, and we would like to see this type of thing develop.

We thank you very much for your being here.

Mr. BROWN. One other point, too, Congressman. You know, we have had a lot of criticism of sending powdered milk to the developing countries of the world because when they mix the water in it, instead of breast feeding the babies they get the diseases.

Now we have a new process that we can electrically heat milk and put it in a cardboard carton. It will stay on a shelf for 2 to 3 months without any refrigeration. That kind of milk, then, could be transferred into needy countries. It doesn't need refrigeration, it will last a long time, and you don't have to mix the local water with it.

The potentials of these developments in agricultural research now, and if we have a sense of urgency and a sense of mission in these land-grant universities and private research, and right now we are terribly concerned about the Mediterranean fruit fly in our State.

Yesterday, Eli Lilly and the Americans—they are working under chemicals all the time. It is very expensive. It takes a sense of urgency to do this. Thank you.

The CHAIRMAN. Thank you.

Mr. STENHOLM. I have one question I would like to ask you. You have been very active in export development personally, and the Texas Department of Agriculture as your predecessor before you. Is the cooperation from the Federal and the State what it ought to be?

Mr. BROWN. We just had lunch with Dick Smith who heads the Foreign Agricultural Service. We have a splendid cooperation with them. Their funds are limited sometimes in many of their endeavors, and I have urged Smith again today—while we were in the show in Europe and an USDA foreign agricultural exhibit, I would have put it in the county fair. At Muleshoe, it was right up against a Norwegian exhibit. It had dancing girls and smoked salmon and these types of things. We have to go first class in the world when we trade. And this is not criticism because their funds are limited. But if we are going to have exhibits in the European shows up against Norway, Denmark and the other countries, we ought to go first class.

To answer your question, there is excellent cooperation. They meet with us. They were with us all day yesterday and we discussed the Atlanta show, and they funded $600,000 out of their budget to help us put on the show. It is real fine cooperation.

Mr. **Stenholm**. Do you have any suggestion to this committee as we ponder what additional help and suggestions, and you mention one previously. But any additional tools that we need as the United States in dealing with the various trade problems and opportunities that we have, are there any tools that we need to look at to give you and to give our Foreign Agricultural Service to help us do a better job.

Mr. **Brown**. One thing I would recommend very strongly, and I have voiced this for a number of years. There are hundreds of groups going overseas. The Farm Bureau sent a group to China.

The next thing, the commissioner of agriculture of Indiana and his group goes to China. Well, I go to Mexico. There is no one in the United States now more knowledgeable than trading with Mexico than the Texas Department of Agriculture. We are not called on to use this expertise at the national level as much as we should. I know the Secretary of Commerce in Mexico by his first name, and the Treasurer of Trade, and Gomez that runs Transportation.

I don't believe there should be a trade team in this country ever to go to any country that is not required to come back and make a report in some kind of a clearing house system. Well, we don't have to have 50 teams going to China to study. We don't utilize this. This is one thing I would recommend very strongly. The State Department or whoever approves the trips would require very extensive reports. We have done this with our prime research and Mississippi State University and Texas A&M are doing research, and Clemson is doing research. We do not spend our money in duplication. We sure need to do this in trade. We have a lot of trade experts that we are not taking advantage of their knowledge.

Other things such as promotional materials—I have a great desire to bring to Texas. I've been to Mexico many times, and they say Commissioner let 100 of our farmers spend a week with the cotton farmer and then bring your farmers down and let them stay a week with us. They are very critical in Mexico now about the criticism of a pesticide and insecticide. It is pretty easy for someone to say they are spraying the crop, but they are actually—there are controls on the pesticides, and they are about as strong as ours and sometimes stronger.

So these areas we can develop a lot.

Mr. **Stenholm**. Thank you. Now, along that latter line, I would offer a suggestion for this committee's consideration along the same lines that Mr. Brown has just made. We all have participated in hearings around the United States and there are various problems of agriculture. The thought occurs to me that it may be of extreme help to have our committee go into Mexico and Japan, and the EEC, and to have at our hearings Mexican, Japanese, and EEC farmers and they can talk about some of the problems that we are talking about. In return, we can have the same reciprocity as far as we are concerned. We may have a little better understanding of some of the foreign trade barriers if we had an opportunity to sit down on a hearing basis with farmers and their leaders in those other countries.

I don't know whether this would be possible or not, but I know, Mr. Chairman, your own personal word in building our relations with Texas—if this is possible it is something I would like to see us pursue.

The **Chairman**. I appreciate the gentleman's interest. It certainly is worth exploring. I assure the gentleman we will take a look at it to see if there is any possible way, or a suggestion or something similar could be worked out.

Mr. **Stenholm**. Thank you. But Mr. Brown, I'd like to say this. I would thank you for the great work you have done for the Texas Department of Agriculture. We appreciate the support out in the field and your heading the committee, and we appreciate you very much. Thank you.

The **Chairman**. Thank you very much, Commissioner. Our next witness this afternoon is Mr. Joseph A. Kinney, representing the National Governors' Association. We welcome you and will be very happy to hear from you at this time.

There was a statement here from a distinguished former member of this committee, Governor Thone. Is that part of your presentation?

Mr. **Kinney**. I would like to have it made part of the record.

The **Chairman**. Without objection, it is ordered.

[The prepared statement of Gov. Charles Thone appears at the conclusion of the hearing.]

STATEMENT OF CHARLES THONE, GOVERNOR, STATE OF NEBRASKA, REPRESENTED BY JOSEPH A. KINNEY, STAFF DIRECTOR, COMMITTEE ON AGRICULTURE, NATIONAL GOVERNORS' ASSOCIATION

Mr. **Kinney**. Mr. Chairman, Governor Thone and the rest of the Nation's Governors extend their wholehearted appreciation for this hearing on this most important topic. I don't want to go over Governor Thone's statement except to make a few general comments.

First, I think it is clear that the topic is of vital importance to the Nation. It is obviously critical to the 2.5 million farm and ranch farmers that produce food and fiber in a manner that is the envy of the world.

It is also important to bankers, fertilizer manufacturers, implement dealers, barge operators, other parts of the food system that comprises 28 percent of our gross national product. Indeed, agricultural exports are important to the balance of payments. We export more feed grains than any single item except jet aircraft, with significant benefits to our economy.

States, as Commissioner Brown just indicated, have a tremendous interest in this. There are about 30 States now with some activities overseas designed to help boost farm exports.

Basically, in our statement we deal with three subjects. First relates to the area of export finance. We would like to begin by commending this committee as well as the Senate Agriculture Committee by passing legislation which would authorize an export revolving fund. I think that we have to view this issue within the context of not only meeting competition and, indeed, our competitors use a variety of export finance tools, as I'm sure you heard this morning from various administration officials.

We also have to view it from the standpoint of market development. I have, if you are interested, a list of ways that we worked out that could be used to finance such a program that would not necessarily involve direct appropriations. It is our view that what we are really talking about here is an accounting situation. Indeed, the GSM-5 credit program, the direct loan program, was a moneymaker for the Treasury during the years in which it operated.

The other thing that we would like to point to in the area of export finance is the intermediate credit program. It was authorized by legislation passed by this committee and sponsored by Congressman de la Garza in 1978. We believe that the intermediate credit program is a welcome adjunct to the direct credit programs, and we would urge you to look at ways in which that program could be used to stimulate our exports.

Recently at the winter meeting of the National Governors' Association we passed a resolution having to do with the area of processed agricultural exports. We think anything that is done to add value to our exports before they go into international commerce is obviously going to be to the advantage of our economy. We go into this in some detail by identifying four areas in which the Federal Government can play a greater role in the area of processed agricultural exports.

Finally, the other thing that we are particularly interested in is in the export trading company legislation.

We feel that as it relates to agricultural exports that this particular legislation offers us a tremendous opportunity, particularly for small business firms or small farmer cooperatives that have yet to enter the export arena.

I would like to say in closing that you are holding this hearing at a particularly important time. There are a lot of people in this town and indeed across the Nation that are talking about reciprocity. Unless a concerted effort is made to develop a comprehensive policy dealing with exports and this Nation begins to commit itself to certain trading principles, we are going to have to deal with reciprocity concepts, and I think that inevitably that is going to lead to protectionism in this country.

I think if we get into that arena, the people that suffer most are the people that have the biggest stake in the exports, the farmers and ranchers of the Nation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. We appreciate your cooperation as representing the National Governors' Association.

Our next witness this afternoon is Mr. Julian Heron of Washington, D.C.

We welcome you. We will be happy to hear from you.

Mr. COEHLO. Mr. Chairman, before the witness testifies, I would like to make some comments. Mr. Heron and I happen to be close personal friends, and I just want to say as someone who comes from California agriculture that this particular witness is one who probably knows the problems of California agriculture, particularly in regards to trade, more than any other single individual dealing with California agriculture, and I just would like to introduce him as such to the committee.

The CHAIRMAN. I appreciate the introduction. Mr. Heron, you may proceed.

STATEMENT OF JULIAN B. HERON, JR., PARTNER, HERON, HAGGART, FORD, BURCHETTE & RUCKERT, WASHINGTON, D.C.

Mr. HERON. Thank you, Mr. Chairman, members of the committee. It is a pleasure to be with your committee today to discuss and review with you the issue of trade barriers encountered by agricultural exports. This is a very important matter, not only for our Nation's economy, but for consumers and farmers alike.

Before proceeding, please let me take this opportunity to thank you on behalf of all agriculture for your committee's interest, direct involvement and support of agricultural exports. Foreign trade is especially important to this Nation's economy. All of agriculture joins in encouraging your committee and Congress to continue its close attention to international trade.

In order to discuss trade barriers to agricultural exports, it is first necessary to give attention to the manner in which agricultural barriers are discovered. Normally it is the private sector which first encounters and learns of the details of the existing barriers through the normal conduct of commerce. In turn, our Government normally learns of trade barriers, both large and small, from the private sector. This process of discovery is appropriate. If there is insufficient commercial interest to identify a particular trade barrier, then there is little point in our Government pursuing it. On the other hand, when a commercial interest discovers a trade barrier and identifies it for our Government, every effort should be made to remove the barrier.

In discussing trade barriers, two immediate sources come to mind. The first are the quotas maintained by the Government of Japan against agricultural commodities. The second is the growing number of section 301 cases that are pending. Each will be discussed.

While Japan retains a number of quotas, the two most commonly discussed involve beef and oranges. Although Japanese demands for both of these products is high, the Japanese Government prohibits their importation above specified level. These two barriers hurt not only the U.S. economy through restricting exports, but also the Japanese population by restricting a supply of a desired commodity.

In recent months a great deal of attention has been focused on Japanese exports to the United States. At some point the United States will be required to demonstrate that it will no longer tolerate the maintenance of quotas by Japan. That time is near at hand. Your committee's interest in the removal of these two quotas is much appreciated.

A second source for locating barriers to agricultural exports are the section 301 cases. These cases are brought by the private sector against specific barriers to trade. The two oldest involve citrus and wheat flour. More recent newer cases involving diverse products such as canned peaches and pears, raisins, pasta, and poultry.

The interesting point is that all of the named cases have been brought against practices maintained by the European Economic Community. Most involve subsidies in one form or another. The cases grow out of the European Economic Community's commitment to move from a common agricultural policy to a common export policy. While the first policy caused numerous problems for many agricultural commodities such as seed grains, the second policy can be expected to cause difficulty for all U.S. exports. There are unlikely to be many, if any, exceptions. This is a matter with which the committee will wish to consider in greater depth as the EEC continues to implement its common export policy.

A discussion of trade policy often goes directly to specific issues. Now, I think we can all agree that in simplest terms trade policy might be described as, export as much as possible and import as little as possible. Unfortunately, it is not that easy. We need to focus our attention on an export policy and develop one, because it is something that the United States has never had.

One of the reasons that we find ourselves here in the United States in our current position is the lack of a national export policy. For a number of years, the Department of Agriculture expressed the importance of agricultural export. In recent years, other agencies have acknowledged the importance, yet, there has never been a cohesive U.S. export policy that brings together the full resources available to our Government to see that agricultural products are exported. The same is true on the industrial side.

Historically, the trade policy has been subservient to foreign policy considerations. Because of this, little attention has been given to export policy. It is recognized that the formulation of the export policy must be a national objective equal in importance to the formulation of foreign policy.

Historically, we have confused the export policy and foreign policy. The adverse consequences of sacrificing long-term export advantages for short-term benefits could readily be seen from the grain embargoes in the 1970's. Virtually all now agree that embargoes imposed were detrimental to our long-term interests. It provided artificial stimulation to our competitors to increase production. Even worse, it gave our competitors the ability to whisper in the ears of our customers that it is no longer possible to know when the United States might terminate its commitments. Had there been a national export policy, this action might not have occurred.

If the effort is made to develop a national export policy, it must be pursued throughout the Government. For years, the Department of Agriculture has had a sound understanding of the importance of agricultural exports. This is best reflected in the foreign market development program which is a shining example of the public and private sector working together for the common good.

However, recognition of the importance to the Nation of agricultural exports by the Department of Agriculture is not enough. Other agencies and the President must accept and support this premise. In the past years, some progress has been made. On a Government-wide basis a sound approach to the damage being caused by the Europoean Economic Community's agricultural export subsidies has been identified and dealt with.

These subsidies affect many crops in many different ways. The common thread is the damage flowing from excessive subsidies granted by the European Economic Community. In response, the Departments of Agriculture, State, and the Special Trade Representative's office took the lead in developing a common strategy to oppose this practice. Eventually, the strategy was adopted by the Cabinet.

All of the agencies of Government are now proceeding in a manner consistent with the Cabinet's strategy. This was, perhaps, best seen in the unprecedented meeting that took place in December of last year in Brussels where we had the Secretary of State and Secretary of Agriculture and the Special Trade Representative present, and the Secretary of Commerce had been scheduled to be there.

These types of coordinated efforts are going to be necessary if we are going to remove the barriers to agricultural trade. You must also look at both the major markets and the smaller markets. We have done a good job in identifying the difficulty with the Community in pursuing it in a coordinated effort. It is a good start, but it is only a start. You have to develop strategies to deal with all of the countries, such as Japan, Argentina, Brazil, or Mexico.

These strategies must be coordinated into an overall U.S. export policy. It would be far easier to obtain and implement specific objectives on a unified basis if they fit into a larger national plan. If the national export policy is adopted it is certain to contain as one of its objectives the need to maximize exports from the United States. In order to accomplish this much work will need to be done.

There is a tendency on the part of virtually every department, with the exception of the Department of Agriculture, to look only at the large-volume or high-value export items. We have to concentrate on the many small sales that can be made as well, because they total up into an important part of our exports.

If we can agree on the importance of developing a policy, then it is necessary the policy be consistent with international trading rules that have been established. Far too often, there is a willingness on the part of diplomats to compromise and depart from the established international rules of trade in order to resolve the particular dispute.

While this seems, at first glance, to be reasonable, practical, and effective, it is not. The established international rules of trade were developed after long years of negotiation and effort. The rules are not perfect. They are based on sound economic theories and political realities. In the United States, when it willingly departs from the rules or allows trading partners to do so, this creates an atmosphere that makes international trade extremely difficult.

In the first instance, it is always difficult to maintain the established rule. In the long run, it is always to the advantage of the United States to do so.

We tend to think of retaliation as a dirty word. Perhaps it is. What is important is that the United States must assume the leadership in making the established rules of trade work. At present, we have reached the necessity of following the rules. Unfortunately, historically we have persuaded the rest of the world that we will do nothing if our trading partners do not observe the rules. We have exercised our leadership in such a manner as to convince our trading partners that there is no liability in operating outside the established world trade rules.

The result can be seen in many of the current bills pending in Congress calling for reciprocity. Congress is saying clearly that if the executive branch cannot enforce trade rules then it will. Reciprocity means removing quotas from a cattle rancher or citrus farmer. It means erecting import barriers to an unemployed citizen of Detroit. It means something else to a banker. In short, it has no meaning.

The established rules of trade will work if followed. A price must be attached to the trade practices by a country that are contrary to the established rules. This is a nation of laws. Certain penalties apply for failure to observe specific laws. The same can be true for world trade. To accomplish this the United States will have to establish its leadership.

If a country objects to a penalty imposed as a result of failure to observe established rules the penalty can be removed upon a change in that country's practice. We in the United States will have to be willing to accept similar consequences for our actions. This need not lead to a trade war. On the other hand, failure to impose discipline in international trade may. As exporters, we have an obligation to see that a workable system is developed, implemented, and enforced.

It is hoped that these thoughts, suggestions, and recommendations will be of benefit to your committee. I would be very pleased, Mr. Chairman, to respond to any questions that you or the committee may have. Thank you very much for providing me with the time to share these thoughts.

The CHAIRMAN. Thank you. Without objection, your statement will be included in the record.

[The prepared statement of Mr. Heron appears at the conclusion of the hearing.]

The CHAIRMAN. Your recommendations have been very helpful. Are there any questions? I recognize Mr. Coelho.

Mr. COELHO. You made some reference earlier in your statement to Japan and the need for some agreements et cetera. How long can the United States continue to believe that Japan is going to make some concessions? I have been around here, as you know, for 17 years. I keep on hearing that Japan is going to make some agreement with the United States and to lower some of the nontariff barriers. There is current discussion going on today about our reducing nontariff barriers. We never seem to quite get those accomplished.

Now, as someone who deals with them all of the time, do you feel that there really is a sincere effort this time, or is it fair to ask you that question?

Mr. HERON. That is a fair question. The United States has consistently sought, through negotiations with Japan, the removal of Japan's barriers. Gradually, Japan has yielded on some barriers. We are down to the barriers that Japan is least likely to proceed on its own to remove, and that is causing great resentment, both here in the United States as we continue to take their imports and find barriers to exports in Japan, and on the part of some Japanese, they feel that we are being unfair in picking on the Japanese.

Now, the question really leads directly to the thrust of the testimony. The executive branch, regardless of the administration, consistently points to the general agreement on tariffs and trade as a method to resolve the dispute. The testimony of all the administrations is that the Japanese quotas are illegal. Yet, the United States has never taken any of those cases to GATT.

Mr. COELHO. Now, also, in regard to the European Economic Community, are they not guilty of the same thing?

Mr. HERON. Certainly, the Community has quotas that they maintain, but the more serious item right now is they are moving from the common agricultural policy which basically has been to develop self-sufficiency in all commodities across the board to a common export policy. As they have achieved self-sufficiency in many products and developed surpluses, then they are now turning their treasury to use in order to move their surpluses onto the world market.

The result is displacing U.S. agricultural commodities to third markets or within the Community. Eventually, we will find more of the products entering our market. Then, there is a rule that subsidies shouldn't be used, then we have to enforce it or we have to come to the realization that at some point the U.S. Treasury is going to be pitted against the European treasury.

Mr. COELHO. I have a question in one further area, and maybe a concluding question. I am concerned about our policy with Japan and what we are doing or not doing with the European Community. I am also concerned as to what has developed in regard to the Caribbean and Mexico and that area, which I think is something that we need to be looking at as far as the future is concerned.

Can you make general comments about the Caribbean policy that has been initiated as to any concerns that you might have in regard to that, as to what is transpiring, or if that is going to lead to some of the concerns that we have in other places? This, I am basically told, that if we proceed with the Caribbean policy that we are then going to have to try to receive exemptions from GATT or whatever. I would like to have your comments on that.

Mr. HERON. If we can restrict the question to the trade aspects of the Caribbean policy, then this is an example where we have developed——

Mr. COELHO. I would like to state for the record that my questions are in regard to trade, not in regard to the other activities.

Mr. HERON. The trade portion really is developed in an atmosphere where there is no U.S. overall trade policy or export policy or import policy. The resulting conflict shows up in many areas. What is proposed in the trade areas for the Caribbean Basin is very similar to the activity that the European Economic Community undertook a number of years ago in the Mediterranean Basin on citrus and those Mediterranean preferences that stop oranges from the Rio Grande Valley from entering the European Economic Community in the winter time, and oranges from California, and with the same effect for lemons.

When the Europeans asked for a GATT waiver, the United States stopped it. The United States is now going to have to ask for a GATT waiver for its Caribbean trade policies. What the outcome will be, no one knows. No one knows whether this means that the United States will give up on trying assist citrus exports to Europe.

Perhaps most importantly, if we are going to allow all the Caribbean products, particularly agriculture, to come into the United States on a duty free basis, then we ought to recognize that we have, as a policy, decided to help agricultural products in that region, and remove agricultural products from the generalized system of preferences, so that the Caribbean gets the full benefit and not a diluted one.

Mr. COELHO. Wouldn't that be in conflict with our policy in some of the other areas? What is the European Community going to say or Japan going to say if we do that in the Caribbean?

Mr. HERON. I am not about to speak for either the Japanese or the Europeans, but, undoubtedly, if the United States continues to press the European Economic Community to grant the United States equal treatment for our citrus exports as the United States is entitled to under GATT, the Europeans will smile and say, "Let it be done in the Caribbean."

Mr. COELHO. Thank you.

The CHAIRMAN. Any questions, Mr. Evans.

Mr. EVANS. No.

The CHAIRMAN. Thank you very much. We appreciate your attendance here this afternoon.

Mr. HERON. Thank you.

The CHAIRMAN. With that, the committee stands adjourned. We are going to invite Mr. Stockman at the suggestion of some of the members for a later continuing hearing on this subject matter, and, further, industry groups that have expressed an interest. We will announce the date at a later time.

We stand adjourned.

[Whereupon, at 3:06 p.m., the committee was adjourned.]

[Responses to questions submitted to Secretary Block and prepared statements follow:]

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

May 20 1982

Honorable E de la Garza
Chairman, Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Responses to the questions submitted in your letter following the recent hearing before your Committee on the agricultural export and trade situation are enclosed.

We are pleased to provide the additional information for the record and appreciated the opportunity to meet with the Committee on Agriculture again.

Sincerely,

John R Block

John R. Block
Secretary
Enclosures

EXPORT PROJECTIONS

Chairman de la Garza. It is expected that this will be the first time in thirteen years that there will be a reduction in United States agricultural exports compared to the previous fiscal year. In your opinion, what is responsible for this reduction in exports? When do you project that United States agricultural exports will again resume an increase? What is the basis for you opinion?

Secretary Block. It is true that agricultural exports are expected to register their first fiscal year decline in thirteen years. However, it is also true that during the past decade, agricultural exports did not move up with the same momentum from year to year. For example, a close look at export trends over the past decade reveals that export volume has tended to increase noticeably over two year intervals, and, while export value has tended to increase annually, large increases in export value are more evident over two to three year intervals rather than annually. In that sense, the projected stagnation in this fiscal year's exports seems to be in line with the characteristically stepwise, two to three year intervals over which large increases in value and volume are usually registered. At least, this is how the current situation may be viewed over the longer term.

The current leveling off in agricultural export value derives from a number of factors which have been affecting trade flows since the last half of fiscal year 1981. Except for the Soviet Union, sharp increases in grain production in both major competitor and importing countries reduced the foreign demand for United States coarse grain. In addition, record or near record Unites States grain and soybean crops put downward pressure on commodity prices. This trend was further amplified by general worldwide economic recession coupled with the rapid appreciation of the dollar against major world currencies. The stronger dollar has made American products more expensive on international markets and this tends to dampen worldwide demand for American products in general. As a result, since the spring of 1981, there has been downward pressure on both export prices and export volumes, and this, in turn, translates into stagnant or decreasing agricultural export value.

Clearly, if any of these factors reverse in trend, then there will be a correspondeing positive impact on United States agricultural exports. While it is difficult to pinpoint either the degree or timing of such a reversal, it is expected that worldwide economic growth will recover during the last half of 1982 and throughout 1983. This will, in turn, tend to increase worldwide demand for Unites States farm products and lead to increases in agricultural export volume and value. However, the uncertainty surrounding the timing and magnitude of such a reversal coupled with our inability to foresee the coming years' world crop production trends prevents us from accurately projecting the timing and magnitude of a recovery in agricultural exports.

CCC REVOLVING FUND

Chairman de la Garza. In your statement, reference is made to the credit needs of potential foreign markets. We gave you tools to assist in this effort by authorizing an export credit revolving fund. Last week the Committee recommended that the budget include an allowance for an appropriation of $500 million. Does the Administration support this proposal in view of the benefit to the economy and balance of payments?

Secretary Block. While the Department supports the concept and objectives of the revolving fund, outlays for a revolving fund would conflict with the Administration's overall budgetary objectives.

CCC CREDIT PROGRAM

Chairman de la Garza. What is the record of repayments on CCC direct credits and credits extended under the CCC loan guarantee program? What is the current status of the loan guarantee program with respect to Poland and Romania? Does the United States expect to continue to make payments to United States banks to cover past due accounts? If so, for what period? Will the United States require notice of default? Does the current procedure comport with the provisions of the outstanding regulations? Please explain current Government policy as to these accounts.

Secretary Block. Under CCC direct credit programs between 1956 and 1980, CCC extended over $9 billion in credits to foreign borrowers under the Export Credit Sales Program, about $1 million under the Intermediate Credit Export Sales Program for Breeding Animals (GSM-201), and $17.5 million under the Intermediate Credit Export Sales Program for Foreign Market Development Facilities (GSM-301). As of December 31, 1981, outstanding principal due to CCC from borrowers in 17 countries totaled $912,416 (thousand), of which $262,314 (thousand) had been officially rescheduled.

Since the beginning of the direct credit programs, reschedulings have been negotiated with borrowers in Egypt, Chile, Zaire, Pakistan, Peru, and Poland. Full recoveries were made from Egypt, Pakistan and Chile. The only realized loss that has been recorded by CCC on the direct or guaranteed credit programs was a loss of less than $1 million on the Export Credit Sales Program which resulted from the closing of Intra Bank, Beirut, Lebanon, in 1966. Romania has made all scheduled payments, although several recent payments were received after the due dates. Poland and Yugoslavia are not fully current on payments due under CCC direct credit. The following table shows outstanding credits due to CCC under the direct credit programs as of December 31, 1981.

CCC Export Credit Sales
Principal Due and Arrearages
As of December 31, 1981

(In Thousands)

Country	Principal	Arrearages 1/
Brazil	$ 37,732	$
Cyprus	1,417	
Dominican Republic	12,877	
Greece	36,391	
Hungary	2,553	
Indonesia	729	
Ireland	1	
Israel - Intermediate	17,510	
Korea	69,869	
Peru	77,305	5
Regular	(45,998)	
Reschedule	(31,307)	
Poland	540,171	11,066
Regular	(322,860)	
Reschedule	(217,311)	
Portugal	51,148	
Romania	41,524	
Spain - Intermediate	661	
Thailand	6,454	
Yugoslavia	2,378	2,623
Zaire - Reschedule	13,696	928
Total	$ 912,416	$ 14,622

1/ All arrearages for Peru and Yugoslavia have been paid subsequent to December 31, 1981.

Arrearages include principal and interest.

Under CCC's Noncommercial Risk Assurance Program (GSM-101) and the Export Credit Guarantee Program (GSM-102), official reschedulings have been negotiated on $142,934 (thou.) due from Poland during Calendar year 1981. Poland apparently has made some interest payments on private credits with maturities in calendar year 1981 and may be making some 1982 interest payments.

CCC has offered to repurchase its guarantees for Polish credits coming due in 1982 and later years from the guarantee holders. All the guarantee holders have accepted this offer, and it will remain in effect unless and until CCC terminates the contracts. The attached paper explains this offer in detail.

CCC has received no notices of nonpayment for CCC-guarantee credits for Romania.

DEPARTMENT OF AGRICULTURE

LEGAL AUTHORITY FOR CCC'S OFFER OF
JANUARY 28, 1982 TO HOLDERS OF
CCC GUARANTEES COVERING CREDITS TO POLAND

On January 28, 1982 the Commodity Credit Corporation (CCC) made an "Offer to All Holders of GSM-101 Assurance Agreements and GSM-102 Payment Guarantees Covering Credits to Poland". Essentially that offer provides for the repurchase or settlement of CCC obligations arising under the GSM-101 Noncommercial Risk Assurance Program and the GSM-102 Export Credit Guarantee Program in connection with export credit sales to Poland.

As detailed below, the action taken by CCC is clearly within its legal authority and is consistent with the laws and regulations governing CCC. Because an understanding of the CCC export guarantee programs is a prerequisite to understanding the action taken by CCC on January 28, this paper first outlines those programs, then explains the January 28 offer, and finally sets forth the legal basis for that action.

THE GSM-101 AND GSM-102 PROGRAMS

General Program Structure. The GSM-101 and GSM-102 programs seek to promote exports of U.S. agricultural commodities and their products by shifting some of the risks traditionally associated with export transactions to CCC. Both programs are essentially identical in structure and operation; the major difference between them is that the GSM-101 program is limited to protecting against only non-commercial risk while the GSM-102 program covers all risks.

Under both programs, CCC promises to reimburse exporters, or the financing institutions that are the exporters' assignees, for a portion of the exporter's account receivable in the event of nonpayment by the importer's bank that issued the irrevocable letter of credit pertaining to the export sale. In return the holder of the guarantee must assign to CCC all rights in the payment that was not received. The total amount that CCC will guarantee and the portion of the account receivable for which CCC will reimburse the holder is determined by CCC in advance for each country. In the case of Poland, all of the credits covered by the CCC guarantees were issued by the state-owned central bank, Bank Handlowy w Warsawie. CCC guaranteed 100 percent of the principal amount and six percent per annum interest on these credits.

Mechanism for Payment under CCC's Guarantee. In order for the holder of the guarantee to collect from CCC on CCC's promise to reimburse the holder, the holder must first notify CCC that a payment has been missed and then file a claim together with supporting documentation. Under GSM-102, pursuant to which CCC issued approximately 60 percent of its guarantees for credits to Poland, the requirement of notice is set forth as follows:

> §1493.8 Notice of default
>
> (a) If the foreign bank issuing the letter of credit fails to make a remittance pursuant to the terms of the foreign bank letter of credit or related obligation, the exporter or the exporter's assignee shall notify CCC by phone or wire if payment is not received within 10 days of due date, or any extension thereof ....

Section 1487.8(a) of the GSM-101 regulations contains a similar notice requirement. The language of that section is as follows:

> §1487.8 Notice of default
>
> (a) If the foreign bank issuing the letter of credit fails to make a remittance pursuant to the terms of the letter of credit or a related obligation arising under the letter of credit and such default appears to be attributable to the occurrence of a noncommercial risk, the exporter or the assignee shall promptly furnish a written notice of default to the Treasurer, CCC ....

Under both regulations, "default" is defined as occurring when "the foreign bank issuing the letter of credit fails to make a remittance pursuant to the terms of the ... letter of credit or ... related obligation".

The purpose of requiring the holder of the guarantee to notify CCC that the foreign bank has failed to make a remittance is to alert CCC to its imminent liability for that payment and to allow it to take such actions as it considers appropriate to protect its interests. For CCC's purposes, then, this notice could have been titled a "notice of nonpayment" or "notice of overdue payment" or other similar language conveying the same idea. It is important to note that CCC's definition of default for purposes of notification under the regulations is fundamentally different from the concept of default in banking circles. A formal declaration of default in that context commonly involves triggering the penalty provisions of agreements with the debtor, including declaring the entire debt to be due and payable and increasing the rate of interest charged on the outstanding balance due. A formal declaration may also trigger efforts to seize the debtor's assets in an attempt to satisfy the debt.

CCC does not require such a declaration of default by the holder in order to trigger CCC's liability. CCC simply requires prompt notice that a payment has been missed.

Once the holder has notified CCC of the foreign bank's failure to make a payment, the holder has 30 days in which to file a claim with CCC for payment. A claim consists of a certification that the scheduled payment has not been received together with copies of the foreign bank' letter of credit or related obligation, the ocean carrier or intermodal bills of lading, and invoices showing the value of the commodities exported. In addition, under GSM-101 the holder must furnish a copy of the export credit sales contract, and under GSM-102 the holder must submit the instrument transferring the holder's rights in the payment to CCC. CCC's obligation to pay the holder is not effective until a claim is filed. A notice and claim may be filed simultaneously. The purpose of the claim requirement is to establish a record to allow CCC to make a final determination of its liability and to furnish CCC the supporting evidence it needs to pursue CCC's rights against the foreign bank.

As a condition of paying on the holder's claim, CCC requires the holder to transfer to CCC all of the holder's interest in the payment missed by the foreign bank, including the holder's interest in the portion of that payment not guaranteed by CCC. The holder and CCC agree to divide any recoveries that have been or will be made on the missed payments by either of them between CCC and the holder based on their shares in that payment. In that manner CCC and the holder would be made whole at the same rate if and when payments are received.

CCC'S JANUARY 28 OFFER

Early in 1982, holders of CCC guarantees informally advised CCC that Bank Handlowy was missing its January payments to them. CCC remained in close communication with those holders, and as of January 28 it seemed clear that Bank Handlowy would not make its payments and that CCC would soon be called upon to meet its guarantee obligations.

CCC decided to take such steps as it could within its statutory authority to avoid the risk of Poland being formally declared in default by its creditors. Consequently, on January 28, 1982, CCC issued an offer to all of the holders of outstanding CCC guarantees covering credits to Poland. That offer provided a mechanism whereby CCC would repurchase its obligations under those guarantees on a payment by payment basis under terms which did not alter -- and in fact under one option of the offer there was the potential to improve -- the financial position of CCC compared to its position under the payment mechanism provided in the regulations. At the same time the offer did not require the holder to file a formal notice and claim with CCC.

Specifically, CCC offered to repurchase its outstanding guarantee obligations covering missed payments by Bank Handlowy under one of two options on a payment by payment basis. The first option was and is fully harmonious with and protective of CCC's rights and liabilities with respect to its obligations under the regulations. Under the second option CCC is relieved of its obligation to cover six percent per annum interest on a payment in exchange for the holder and CCC not sharing in any recoveries either one makes. This second option, if elected by holders, could result in substantial savings to CCC. CCC concluded that it would be in at least as advantageous a position under the offer as it would be under the payment mechanism provided in the regulations.

Under both options the holder must notify CCC whether it has elected one of the options for a given payment. This provides the same notice to CCC as the notice of default required by the regulations. It alerts CCC of its potential liability and allows it to take such steps as it considers necessary to protect its interests. The holder is also required to file a copy of the foreign bank letter of credit, the ocean carrier or intermodal bills of lading, and the invoices showing the value of the commodity exported. Because the offer applies only to obligations for which the corresponding payment has not yet been paid in full, CCC is fully protected from paying out except where the scheduled payment has not been received. This requirement together with the required documentation provides CCC with the same ability to make a final determination of its liability and furnishes CCC the same supporting evidence it must have to pursue its rights against Poland as that provided by the claim requirement of the regulations.

CCC also provided in the offer that acceptance of the offer bound the holder to its terms for all outstanding CCC obligations covering credits to Poland. On the other hand, CCC was free to terminate the contract at any time. In this way CCC preserved its option of reverting to the procedures under the regulations whenever it wished to do so. At the same time, the holder is not limited to accepting the options contained in the January 28 offer, but may elect to follow the payment mechanism provided in the regulations.

LEGAL AUTHORITY

CCC was acting within its legal authority in making the January 28 offer to holders of CCC guarantees covering credits to Bank Handlowy. This conclusion is based on two elements: (1) the January 28 offer in no way alters the basic rights and liability of CCC under its obligations but instead offers a possibility of improving CCC's position concerning those obligations and (2) CCC has broad statutory authority to enter into contracts of this type for the settlement of its claims and obligations.

Rights and Liabilities of CCC. Under the terms and conditions of the offer, CCC is no worse off than under the framework established in the regulations and CCC may in fact be in a better position than it would have been had it relied solely on the program regulation framework. Under the first option of the offer, CCC's position is no different than it is under the program regulations. First, Bank Handlowy has failed to make its payments when due. As a result, it is undisputed that CCC is unconditionally obligated to pay holders the amount of their credits guaranteed by CCC, whether under the mechanism of the regulations or under the contract mechanism of CCC's January 28 offer. Second, the procedural requirements under the offer provide CCC the same protection with respect to its rights and liabilities as the procedural notice and claim requirement of the regulations.

Under the second option of the offer, to the extent it is selected by holders, CCC could be in a better position than under the program regulations in that it will not have to pay holders the six percent per annum interest guaranteed by CCC. CCC has determined that this could leave CCC in a better position than insisting on a share of any interest recovery made by a holder.

Statutory Authority. The Commodity Credit Corporation Charter Act (15 U.S.C. 714 *et seq.*) confers broad authority upon CCC to manage its fiscal affairs. In exercising this authority, CCC is subject to the duty to act in accordance with customary standards of prudent business management.

Section 4(g) of that Act empowers CCC to "enter into and carry out such contracts or agreements as are necessary in the conduct of its business." Section 4(j) of that Act gives CCC the power to "determine the character of and the necessity for its obligations and expenditures and the manner in which they shall be incurred, allowed, and paid." Section 4(k) of that Act authorizes CCC "to make final and conclusive settlement and adjustment of any claims by or against the Corporation or the accounts of its fiscal officers." And section 4(m) provides that CCC "[s]hall have such powers as may be necessary or appropriate for the exercise of the powers specifically vested in the Corporation, and all such incidental powers as are customary in corporations generally." (15 U.S.C. 714b.)

In making its January 28 offer, CCC was using its powers to make and amend such contracts as are necessary to the judicious management of its obligations and its power to settle its claims arising under those contracts. This offer did not affect any other obligations issued by CCC nor did it alter the GSM-101 or GSM-102 regulations. Those regulations continue to govern CCC's obligations covering debts to Poland in the event holders choose not to avail themselves of the alternative contract mechanism offered by CCC and they continue to govern any new guarantees issued by CCC.

CCC was not obligated to amend its regulations in order to make this offer. Those regulations prescribed the rules and conditions under which CCC is willing to issue its guarantees, but once issued those guarantees are contracts between the holders and CCC. Like any such contract, the guarantees are subject to adjustment by the parties in connection with the settlement of their claims and obligations. CCC's offer affected only its rights and the rights of the holders of CCC guarantees to whom the offer was made. CCC was not required to permit the general public to participate in such a settlement by utilizing notice and comment procedures to incorporate the terms of the settlement in the regulations.

In light of the broad statutory authority of the Corporation to enter into contracts to provide for the management of its claims and obligations, and in view of the manner in which CCC has exercised this authority for the benefit of CCC, CCC was authorized to make its offer of January 28, 1982.

CCC CREDIT PROGRAM

Chairman de la Garza. What is the current policy regarding the extension of new guaranteed credits to Romania?

Secretary Block. On February 21, 1982, when President Reagan announced that $65.0 million in CCC Export Credit Guarantees for Romania would not be approved his concern was that if the Romanians were unable to meet their obligations to the commercial banking community they would most likely fail to meet obligations to the United States Government as well. This policy will prevail until Romania establishes its credit worthiness and can be expected to properly perform its payment obligations.

CCC CREDIT PROGRAM

Chairman de la Garza. I understand that some banks apparently are not willing to participate in the credit guarantee program with only 6 percent interest guaranteed, in light of current interest rates and the Polish debt situation. The banks apparently are examining applications more closely and have reportedly turned some countries down. Is this a correct report? If so, what plans do you have to cope with this situation?

Secretary Block. Under the GSM-102 Program, CCC generally has not covered the full risk. For new transactions under GSM-102, CCC has been covering 98 percent of the principal and 8 percent per annum interest. Considering unguaranteed principal and interest combined, this often means that about 10 percent of payments due are not covered by CCC's guarantee.

It is true that some U.S. banks have examined transactions carefully and refused to provide financing in cases where they felt that payment was unlikely to be made as scheduled. Since, the GSM-102 program is designed to operate only in commercial markets, this is exactly the way the program is supposed to work. If private banks feel that the foreign bank promising to pay is unlikely to honor its promise or that the finances of the foreign country are in such bad shape that foreign exchange to make the payment will not be available, they may refuse to take the unguaranteed risk. If this happens, CCC must examine much more carefully its role and consider whether the market development in terms of increased exports is worth the risk in an area which is so risky that a U.S. bank cannot be found which will share 10 percent of the risk with CCC.

Risk sharing with private banks was part of the program as it was conceived and designed. Since CCC feels that banks should exercise some caution in making loans under the program, no plans are being developed to eliminate the risk assumed by banks. We have no indication that banks are unwilling to provide financing in the type of markets where the program was designed to operate.

EMBARGO PROTECTION

Chairman de la Garza. Can we provide any guarantees to our foreign customers that if they contract for the purchase of agricultural commodities, in the unlikely event an embargo may be imposed, the contracts will be honored?

Secretary Block. In his statement on March 22 of the agricultural export policy of the United States, the President provided public assurance that an embargo action like the one in 1980, which only hurts the U.S. and is ineffective against a target country, would not be repeated. He strongly denounced the 1980 embargo and promised that an embargo would only be imposed under the most extreme circumstances; that it would be a complete boycott; and that the cooperation of other exporting countries would be necessary. The Department feels that this policy statement encourages buyers and sellers to trade with confidence.

Chairman de la Garza. Section 1205 of the Agriculture and Food Act of 1981 requires you to develop plans to alleviate the adverse impact of export embargoes on agricultural commodities to protect farmers, elevator operators, common carriers and exporters. The Act imposes a mandate for development of plans. How do you reconcile your statement on pages 10 and 11 with the requirements of law?

Secretary Block. The Department is working to comply with the requirements of Section 1205. Considering the vast number of conditions that might exist, there is real difficulty in developing a useful contingency plan that is actually feasible. It seems essential that any plan should provide sufficient flexibility to allow USDA to respond to a wide range of variables and circumstances. Current farm legislation provides a number of options which could be exercised, and these will be considered carefully.

SUGAR

Chairman de la Garza. The Agriculture and Food Act of 1981 requires that sugar processed from sugarcane and beets from the date of enactment of the Act through March 31, 1982, must be supported through purchases at a level which approximates a raw sugar price of 16.75 cents per pound. To assist in implementing this law import fees under Section 22 were announced on December 23, 1981, which would result in a market stabilization price of 19.08 cents per pound. This price consists of the 16.75 cents purchase price, plus 2.33 cents to cover freight costs, related marketing costs and other factors. Today's Wall Street Journal shows a domestic spot sugar price of 17 cents per pound. What reason do you ascribe to the fact that the spot price is now below the market stabilization price? Will further Section 22 action be required to meet the price objective?

Secretary Block. The domestic spot sugar price as measured by the New York Number 12 price on raw bulk sugar, duty and fee paid, was between 17 and 18 cents per pound in late March 1982. It has not yet reached the market stabilization price of 19.08 cents for a variety of reasons. Included among these is the large increase in imports in the last quarter of 1981, especially in December, as exporters sought to enter sugar prior to the increased duty and Section 22 import fees. Imports in December alone were over 800,000 metric tons, nearly two and one half times the level of more normal months. Also contributing are large imports of sugar from countries whose shipments of sugar exceeded the GSP competitive need dollar limit in 1981 and who will lose duty free treatment for sugar on April 1, 1982. Finally, the general economic conditions and continued high interest rates are contributing to depressed activity in our domestic sugar market.

Adjustments will be made in accordance with Presidential Proclamation 4887 as prices change.

The International Trade Commission (ITC) will hold hearings April 6, 1982, to examine Presidential Proclamation 4887 and the need for Section 22 fees to protect the price support program for sugar beets and sugar cane. At that time problems related to the operation of the fee system will be discussed.

CARIBBEAN INITIATIVE

Chairman de la Garza. The President recently announced his plans for a Caribbean Initiative. Under the announcement it was indicated that sugar imports from Caribbean countries will receive duty-free treatment. The initiative will result in sugar entering this country from three countries that do not now receive such treatment, including the Dominican Republic which is the largest exporter of sugar to the United States. What does the United States Government plan to do to protect the domestic price support program? I would particularly wish information on: any quantitative restriction that may be applied to avoid flooding the market with additional imports; any adjustments that may be made on the Section 22 fee and the effect this would have on consumer prices in the United States; and the effect the initiative will have on relations and trade with other major trading partners and traditional suppliers of sugar such as Brazil, Australia, Argentina and the Philippines.

Secretary Block. The Caribbean Basin Initiative (CBI) consists of measures in the trade, investment and foreign assistance sectors designed to help address serious problems in the region. The centerpiece of the trade program will be the creation of a one way free trade area for all products except textiles. Sugar will be included; however, certain limitations and safeguards will be imposed to ensure that the domestic price support program operates as intended. Specifically, the three largest sugar exporters in the region would each receive an absolute duty free quota based on 110 percent of their average imports during the best two of the last three years. This gives quotas for these countries as follows:

Dominican Republic	780,000 MT
Guatemala	210,000 MT
Panama	160,000 MT

Shipments from other Basin suppliers will continue to receive duty free treatment under the Generalized System of Preference (GSP), subject to the GSP competitive-need limit. All non-Basin countries could continue to ship to the U.S. market, subject to the import duty and fee.

It is anticipated that the Secton 22 import fee, which is charged on all sugar entering the U.S., will need to be increased in order to compensate for the increased amount of duty free sugar. The actual amount of the increase will depend on the world prices, the percentage of duty free sugar that is expected to enter and the distribution of benefits between exporters and importers of the 2.8 cents amount. We intend to operate the fee system so as to minimize consumer impact while at the same time protecting the domestic price support program.

These measures are intended to help ensure that the development of these relatively small economies is not frustrated by low world prices for sugar. However, it should be stressed that the overall objective of the CBI is to encourage diversification of these economies away from traditional raw material exports such as sugar and into manufactured and processed products. Therefore, the United States expects that sugar production will not grow significantly in the Basin countries and that our other traditional suppliers outside the Basin will retain an important share of the U.S. sugar market.

Chairman de la Garza. What are the other agricultural products produced in the United States that are affected by the Caribbean initiative? What steps are being taken to insure that domestic producers of these other agricultural commodities, such as producers of citrus and vegetables, will not be injured?

Secretary Block. The U.S. tariffs will be eliminated for all agricultural commodities that are exported to the United States by Caribbean producers, including citrus and winter vegetables. The proposed CBI legislation recognizes that the brief marketing season for most perishable commodities makes domestic producers of these items particularly vulnerable to any import surge that might occur. Hence, the bill provides that a domestic producer of perishables who files a petition for Section 201 import relief may also file a petition with the Secretary of Agriculture for emergency relief; if the Secretary feels that such relief is warranted, he would recommend that the President reimpose the duty for Caribbean shippers until the ITC has completed its 201 investigation and the President has acted upon ITC's recommendation. The entire "fast track" process for reimposing the duty on an emergency basis would take a maximum of 21 days.

We should note that while we expect Caribbean exporters of perishable commodities to take advantage of this preference and increase their shipments to us, we do not expect such shipments to significantly affect our domestic market. For example, if all Caribbean countries were to double their exports of perishables to the United States, these shipments still would only be about 10 percent of what Mexico currently ships to us.

SUGAR

Chairman de la Garza. Mr Secretary, the law requires that, effective October 1, 1982, you support the price of raw cane sugar at 17 cents per pound through non-recourse loans. How do you plan to accomplish this, given the current problems in achieving the targeted price and the additional problems that the Caribbean Basin legislation may create for you?

Secretary Block. The Presidential Proclamation, which established the border protection on imported sugar is designed to operate both for the purchase program in effect for sugar processed between December 22, 1981 and March 31, 1982, as well as for the loan program. We expect that refinements and improvement in the Proclamation will occur as a result of the required investigation of the measures by the International Trade Commission (ITC) scheduled for April 6, 1982. Several options including the use of the Number 12 contract rather than the Number 11 contract as a basis for adjusting the import fee and changes in the method for calculating the additional protection necessary to offset increased duty free imports, are being reviewed and considered. Our intention is to operate the price support program without acquisition of sugar by the Commodity Credit Corporation.

PUBLIC LAW 480

Chairman de la Garza. What is the policy of the United States on providing the benefits of the short term credit program to China or providing P.L. 480 assistance to China if that should become necessary to open that market further?

Secretary Block. Under Title II of Public Law 480, we have been providing emergency food assistance through the World Food Program for two provinces in China adversely affected by natural disasters.

The Adminstration has not considered Public Law 480 Title I assistance to China. Given the size of the Title I budget, the demand for the program worldwide, and China's very large import needs, it would be difficult to mount a program large enough to effect a further opening of that market. Instead of focusing on aid, the Administration has been concentrating on developing a sound trade relationship with China. In agriculture, for example, China's purchases of U.S. agricultural commodities have risen from $64 million in 1977 to over $2 billion. Also, there is now in place a four-year grain agreement which provides for minimum annual commercial imports by China of six million tons.

While the Agricultural Trade Act of 1978 permits the extension of CCC credit to China, and the mechanics of such financing have been discussed with that country, it has made no formal request thus far.

PUBLIC LAW 480

Chairman de la Garza. You were asked in the hearings as to why no P.L. 480 program rice allocations have been completed to date, although approximately 262,000 tons have been authorized for allocation. As you know, there is a particularly large surplus of rice this year and any amount exported will reduce the amount the Government may take over under the loan program. You responded that efforts are being made to this end. Please list the countries with which such arrangements are being completed and when you expect that this will be accomplished. I am informed last year at this time over 140,000 tons had been programmed.

Secretary Block. The Department of Agriculture has been working with the Department of State and the other interested agencies to maximize the programing of rice wherever feasible.

Rice programing under Public Law 480 Title I was complicated this year by the loss of what had been our largest Public Law 480 rice market, Indonesia. Last year we programed 86,000 metric tons to that country. This year Indonesia has abundant supplies of rice. A smaller, but key program last year was 17,000 tons for the Dominican Republic. Its domestic crop is currently sufficient to take care of its needs. Thus, this year new destinations have to be found for over 100,000 tons of rice.

Thus far, agreements have been signed or are in negotiation which include about 145,000 tons of rice for Bangladesh, Kenya, Liberia, Mauritius and Peru. Agreements are in progess for Guinea, Haiti, Jamaica, Senegal, Somalia, and Zambia which total over 85,000 tons, and additional programs are under discussion.

With six months remaining in the program year, we will continue to look closely at all program requests with a view toward including more rice.

U.S.-U.S.S.R. GRAINS AGREEMENT

Chairman de la Garza. The United States extended the grain agreement with the U.S.S.R. through the end of this fiscal year. What plans does the Administration have to begin talks on renewal of the long term agreement?

If the answer is none - what will be done to assure continued exports to the U.S.S.R. after the end of the fiscal year?

Secretary Block. Discussions regarding a new agreement were postponed last December until a more appropriate time for negotiation. Although such discussions have not been rescheduled as yet, we remain optimistic about prospects for a new agreement. Without a new agreement, the Soviets will be able to purchase grain from the U.S. market without restriction, just like any grain purchaser.

INTERNATIONAL AGREEMENTS

Chairman de la Garza. Can you reiterate for me your views concerning United States involvement in international agreements aimed at commodity price stabilization - for example - as to wheat and sugar, among other commodities - and also as to agreements relating to food security?

Secretary Block. Improved world food security and continued cooperation among wheat trading countries will continue as primary objectives of any new International Wheat Agreement. The U.S. believes that the role of the International Wheat Council (IWC) should be strengthened in world food security issues by actively monitoring price and supply movements via the agreement's consultative procedures, and by reviewing reserves policies in member countries. Members of the Council have already agreed on immediate steps to strengthen the operation of the current Wheat Convention. These actions should provide a basis for a future agreement. The U.S. supports the IWC as the proper forum for such objectives, but does not support specific price-setting or cartel-type mechanisms for wheat which would hinder the free flow of trade according to market forces.

The U.S. position regarding international reserves is: 1) that we alone have developed a conscious reserves policy to meet domestic and international needs, including a four million ton food security wheat reserve; 2) that other countries, especially exporting and developed importing countries, should establish national reserve policies; and 3) that such reserve systems should be market oriented instead of internationally coordinated.

WORLD HUNGER

Chairman de la Garza. The House Agriculture Committee held hearings during the last session to explore the world hunger situation, and we heard testimony from you and witnesses from the State Department at that time. Can you tell us if the Administration feels it is making progress in the fight against hunger and if any new initiatives are planned in this regard?

Secretary Block. As you are aware, this Administration is very conscious of the world food problem and is committed to alleviating world hunger by helping developing countries to improve their economies. In addition, we continue to be the world's largest agricultural exporter and source of food aid. A dialogue with the developing countries has been established as a result of the Cancun Meeting last October and we are optimistic. We are promoting use of the private sector in the development process.

AFRICAN SWINE FEVER

Chairman de la Garza. It has come to my attention that FY 1982 funding for the Inter-American Institute for Cooperation in Agriculture has been held up in the Continuing Resolution, and will not be available until the final quarter of FY 1982, and that this delay has the potential to hamper efforts to stem further outbreaks of African swine fever in the Caribbean Basin. Can you tell me if the Administration will support immediate funding for this agency, as it has the OAS, and if it does not, how such a budget concern is consistent with the new Caribbean initiative?

Secretary Block. The Administration has requested a deferral of payments to the UN agencies until July 1982. The Organization of American States and Pan American Health Organization have been excluded by Congress for the deferral but the third pillar of the system — IICA — is still included in it. IICA has been highly responsive to U.S. interests specifically in the area of animal health. African swine fever in the Caribbean is of great concern to the U.S. A cooperative effort with Caribbean basin officials to improve the plant and animal health and sanitary conditions of the area is an important component of the Caribbean Basin Initiative. It is advantageous to protect U.S. interest through IICA involvemnt in extermination programs in Haiti and the Dominican Republic because we could not move into those coutries on a unilateral extermination program. The Department of Agriculture has held repeated discussions with State Department officials to get available funds to IICA in accordance with U.S. quota obligations. They have agreed to disburse about one third of our quota amounts this April and the balance in November 1982 (out of FY 1983 monies).

OPENING STATEMENT BY CHAIRMAN DE LA GARZA
AT HEARING BY THE HOUSE AGRICULTURE COMMITTEE
MARCH 9, 1982

I want to welcome Secretary Block, Ambassador Brock, Assistant Secretary Hormats and other distinguished witnesses who will testify today in this hearing on the export and trade situation.

Export markets have always been important to American agriculture. But they have never before been as critical a factor in our agricultural economy--as they are today.

It is a fact of life that American agriculture has become increasingly dependent for its prosperity on export markets. Today, one out of every three planted acres is producing for export. That means we must have a healthy and expanding market if we are going to help farmers pull out of the depression they are now suffering.

It is also a fact of life that agricultural exports have been setting new records in every fiscal year since 1971--but they are not going to set a new record this year. The Agriculture Department tells us to expect the value of farm exports in fiscal 1982 to drop to about $42.5 billion, a decline of $1.3 billion from last year's record.

We have heard many of the reasons for this decline. What farmers want to know now is--what is their government going to do about the problem?

Congress has approved a number of tools which can be helpful in promoting farm exports, including authority for a revolving export credit fund. So far, we have no request from the Administration to activate that fund. I think our guests from the Administration should know that this Committee last week recommended--on a bipartisan basis--that money be provided in the fiscal 1983 budget for the revolving fund.

I think it is time for farmers to get from their government a clear, consistent policy on agricultural exports.

We know and appreciate the Secretary of Agriculture's commitment to export projects including promotion programs. I have personally applauded the Secretary's forthright positions on the issue of export embargo policy. But, with respect, this is not yet a total Administration policy.

A total policy must cover a wide range of areas--export credit, fair dealing with both our customers and competitors on the world market, export promotion programs, and many other issues including a policy on embargoes.

Ever since the Polish crisis, American agriculture and our farm commodity markets have been whipped up and down by varying statements on the subject of possible embargoes.

On one day, we might hear the Secretary of Agriculture explaining why embargoes should not be used except, perhaps, as part of broad actions in extreme emergency situations. Then, we might hear some other government official saying in general terms that he could not rule out some further, unspecified actions against the Soviet Union.

Just recently, I was delighted to read that the Secretary of State told an audience that a U.S. grain embargo to protest Soviet intervention in Poland "would be self-defeating and sterile" unless other grain exporting nations support the action.

I said to myself--at last, the Secretary of State is on our side; he's recognizing what many other have been saying for a long time.

Then, just last week, I read that Treasury Secretary Regan is reported to be frowning on proposals that the government should agree to allow delivery of contracted exports, except in some defined emergency situations. Secretary Regan, according to one news account, "expressed concern that the sanctity of contracts proposal might restrict U.S. options for putting leverage on foreign nations and he specifically cited Libya."

This frankly disturbs me, Leaving Libya aside, general talk about using an embargo to put leverage on other countries is not the way to give farmers much confidence in the future.

American farmers are willing to back their government and their President in actions which are necessary for the nation's basic protection and safety. But I think farmers want a policy in which they will not be made pawns in games which produce no results for our country. I hope that before long, we will hear a clearly defined, broad policy which deals with questions like this--and which helps rebuild our reputation as dependable suppliers of farm products.

I think there can be no doubt that our reputation as a dependable supplier has been damaged in recent years. This is no political issue. What blame there is on this question can be shared by Administrations of both parties. What we need to do now is to correct the mistakes of the past. The trust we want to rebuild among our customers will be an asset in cash terms to farmers, and in foreign policy terms to the entire country.

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STATEMENT OF CONGRESSMAN WILLIAM C. WAMPLER OF VIRGINIA

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

HEARING ON THE GENERAL AGRICULTURAL

EXPORT AND TRADE SITUATION,

MARCH 9, 1982

THANK YOU, MR. CHAIRMAN.

I DO HAVE A BRIEF OPENING STATEMENT.

IT IS LITERALLY TRUE THAT THE UNITED STATES HAS BEEN RIDING THE CREST OF THE AGRICULTURAL EXPORT WAVE FOR SOME YEARS NOW. OUR AGRICULTURAL EXPORTS IN FISCAL 1982 ARE NOT EXPECTED TO REACH LAST YEAR'S RECORD 43.8 BILLION DOLLARS BUT THE VOLUME OF PRODUCTS GOING INTO FOREIGN MARKETS IS EXPECTED TO SET A NEW RECORD. THAT VOLUME MAY INCREASE ABOUT 4 PERCENT TO 169 MILLION METRIC TONS, BUT LOWER PRICES FOR MOST MAJOR PRODUCTS LIKELY WILL REDUCE THE EXPORT VALUE TO AROUND 42½ BILLION DOLLARS.

THAT DOLLAR VALUE IS STILL CLOSE TO LAST YEAR'S RECORD, REFLECTING THE GREAT IMPORTANCE OF EXPORT MARKETS TO FARMERS AND TO THE AGRIBUSINESSES THAT SERVE THEM. NO LESS SIGNIFICANT TO ALL SEGMENTS OF OUR ECONOMY IS THE TREMENDOUS TRADE SURPLUS GENERATED BY OUR FARM EXPORTS.

According to current estimates, our farm trade surplus in Fiscal 1981 and 1982 will average about 26½ billion dollars a year. That certainly has helped to pay our nation's bill for imported crude oil, which in the past two years has averaged nearly 64 billion dollars. To put it another way, our farm trade surpluses in Fiscal Years 1981 and 1982 have been enough to pay for better than one out of every three barrels of crude oil we imported!

Farm exports represent the "growth stocks" of American agriculture and it is essential that we keep our competitive edge in world trading if those growth stocks are to pay dividends.

Keeping that competitive edge in farm exporting and expanding our trade is even more essential now to the welfare of American agriculture, threatened as it is with depressed farm prices caused in part by high interest rates, a stronger U. S. dollar abroad, and huge farm commodity surpluses.

I and my colleagues on this side of the committee on two occasions in recent weeks urged President Reagan and Secretary of Agriculture John Block to explore various agricultural trade expansion options as a way to improve the current farm situation. I am sure that Chairman de la Garza and other members of this committee are equally as concerned about the plight of our farm economy.

My Republican colleagues and I have suggested several specific courses of action for trade expansion which we hope will be addressed by the Administration during the course of this hearing. These courses of action involve funding of the Agricultural Export Credit Revolving Fund authorized by the 1981 farm act, implementation of intermediate credit authorized under the 1978 trade act for market development facilities in importing nations, use of Export-Import Bank funds for agricultural trade expansion and continuation of attempts to remove unnecessary tariff and non-tariff barriers to U. S. exports.

I want to compliment Chairman de la Garza for calling this hearing today because I know that he knows how terribly important our farm exports are to this country.

I want to make one final observation on the importance of farm exports---not just to farmers but to all of America.

Those exports are the part of our phenomenal farm production that is not needed here in the United States. But that higher level of output enables the farmer to operate at peak efficiency and thus lower his cost per unit of production.

THUS, THE HIGHER LEVEL OF PRODUCTION TENDS TO HOLD DOWN FOOD PRICES IN THIS COUNTRY. EXPORTS, THEREFORE, HELP MAKE IT POSSIBLE FOR AMERICAN FARMERS TO BE SO PRODUCTIVE THAT U. S. CONSUMERS PAY COMPARATIVELY LESS FOR FOOD THAN PEOPLE IN ALMOST ANY OTHER COUNTRY IN THE WORLD.

MAINTAINING A HIGH LEVEL OF AGRICULTURAL EXPORTS CAN DO MUCH TO HELP OUR NATION'S ECONOMIC RECOVERY. I AM HOPEFUL THAT THIS HEARING AND SUBSEQUENT ACTIONS BY THE ADMINISTRATION WILL POINT THE WAY TO EXPANDING OUR INFLATION-FIGHTING FARM EXPORTS.

I AM CONFIDENT THAT THE ADMINISTRATION OFFICIALS HAVE A POSITIVE STORY TO RELATE ON THE EXPANSION OF TRADE IN AGRICULTURAL PRODUCTS, AND I WANT TO HEAR WHAT THEY CAN PROMISE TO OUR NATION'S FARMERS AND PRODUCERS IN THE WAY OF NEW INITIATIVES AND PLANS FOR EVEN GREATER EXPANSION OF AGRICULTURAL EXPORTS. I WOULD EXPECT THAT THE PRIVATE SECTOR INVOLVED IN AGRICULTURAL EXPORTS WILL COME FORTH WITH THEIR IDEAS ON HOW TO EXPAND SUCH EXPORTS EITHER NEXT WEEK OR AT A LATER DATE.

THANK YOU, MR. CHAIRMAN.

REPRESENTATIVE PAUL FINDLEY
STATEMENT BEFORE THE COMMITTEE ON AGRICULTURE
MARCH 9, 1982

I WANT TO COMMEND THE CHAIRMAN FOR HOLDING THESE HEARINGS TODAY. GIVEN OUR BUDGET CONSTRAINTS, WE CANNOT PROVIDE PRICE SUPPORTS HIGH ENOUGH TO ASSURE PROFITABILITY IN AGRICULTURE. BUT, THE GOVERNMENT CAN AND SHOULD HELP FARMERS GAIN ACCESS TO MARKETS OVERSEAS.

TODAY, OUR FARMERS FACE A VARIETY OF TRADE BARRIERS, NOT LEAST OF WHICH HAS BEEN OUR GOVERNMENT'S PERIODIC INTERFERENCE IN THE MARKET THROUGH THE USE OF TRADE EMBARGOES. THESE EMBARGOES HAVE COST THIS COUNTRY BILLIONS OF DOLLARS, WHILE PROVIDING LITTLE, IF ANY, BENEFITS TO OUR FOREIGN POLICY.

IN A STUDY CONDUCTED RECENTLY FOR THE NATIONAL CORN GROWERS ASSOCIATION, IT WAS REPORTED THAT THE LAST SOVIET EMBARGO COST THIS COUNTRY $11.4 BILLION IN OVERALL NATIONAL OUTPUT, 310,000 JOBS, AND $3.1 BILLION IN LOST PERSONAL INCOMES. I COMMEND THIS ADMINISTRATION FOR LIFTING THAT EMBARGO, AND I URGE THE PRESIDENT TO STRONGLY REASSERT THIS ADMINISTRATION'S INTENTION OF RESTORING THIS NATION'S REPUTATION AS A RELIABLE SUPPLIER OF GRAINS AND OILSEEDS.

I ALSO WANT TO COMMEND THIS ADMINISTRATION FOR ITS COMMITMENT TO ENFORCING THE PROVISIONS OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE. I DON'T THINK ANY

ADMINISTRATION HAS A BETTER RECORD OF PURSUING GATT VIOLATIONS THAT OUR CURRENT ADMINISTRATION.

BUT IN TODAY'S FARM ECONOMY, THE GOVERNMENT HASN'T DONE ENOUGH. AGRICULTURE IS THIS NATION'S LARGEST INDUSTRY. FARMING IS ONE OF THE THINGS THE PEOPLE OF THIS COUNTRY CAN DO BETTER THAN ALMOST ANYONE ELSE IN THE WORLD. SO, IT'S ESSENTIAL THAT WE USE ALL OF THE TOOLS AT OUR DISPOSAL TO FIND MARKETS FOR OUR PRODUCTS WHEN THE NEED ARISES.

SPECIFICALLY, I HOPE TO SEE OUR WITNESSES TODAY ADDRESS THE FOLLOWING ISSUES. WHAT IS THE ADMINISTRATION'S INTENT WITH REGARD TO FUNDING THE AGRICULTURAL EXPORT CREDIT REVOLVING FUND AUTHORIZED IN THE 1981 FARM BILL?

WHAT EFFORTS ARE BEING MADE TO ENCOURAGE OUR CUSTOMERS -- PARTICULARLY DEVELOPING NATIONS -- TO BUY AND HOLD THEIR OWN RESERVES NOW, WHILE PRICES ARE LOW? WHAT IS BEING PLANNED IN THE WAY OF HELPING THEM BUILD THE STORAGE FACILITIES THEY NEED TO ACCOMPLISH THIS?

WHAT EFFORTS ARE WE MAKING TO ENCOURAGE OUR CUSTOMERS TO PURCHASE PROCESSED AGRICULTURAL COMMODITIES? IT MAKES LITTLE SENSE FOR US TO IGNORE THE OPPORTUNITY TO EXPORT SOME OF OUR CAPITAL AND LABOR WHENEVER POSSIBLE. THIS HELPS US TO KEEP PEOPLE WORKING IN THIS COUNTRY.

I WANT TO WORK WITH THE PRESIDENT AND MY COLLEAGUES ON THIS COMMITTEE TO RESTORE PROFITABILITY TO AGRICULTURE. I HOPE THESE HEARINGS FOCUS OUR ATTENTION ON WHAT NEEDS TO BE DONE NOW, SO THAT WE CAN TAKE APPROPRIATE ACTIONS.

THANK YOU, MR. CHAIRMAN.

Statement by the Honorable Tom Hagedorn
before the Full Committee to discuss the
General Agricultural Export and Trade Situation

Thank you, Mr. Chairman. It is obvious that the U. S. agricultural sector is facing monumental problems in international markets. While U. S. exports of corn and soybeans are projected to exceed last year's level they are below the 1979/80 period. Currently, corn export sales are lagging behind 1980/81 levels. Wheat is the only major commodity that has displayed sustained export growth the last few years.

Putting it in the perspective of world totals, the U. S. share of agricultural exports is declining. In 1979/80, the U. S. share of world grain (wheat, course grains, and milled rice) exports was 52 percent. Last year it was 50 percent. It is projected at about 51 percent for 1981/82. Our share of coarse grain exports have steadily declined since 1979/80 from 66 percent to a projected 58 percent share this year. Soybean exports will decline from 84 percent to 80 percent in 1981/82. Again, only wheat exports continue to make inroads with the U. S. share increasing from 40 to 46 percent. This trend has occurred despite the fact that the U. S. share of world grain production has been maintained at the 1979/80 level.

Even more important, the U. S. Share of world carryover stocks has become more pronounced. In 1979/80, the U. S. share of total world grain ending stocks was 41 percent. While it declined to 35 percent in 1980/81, it is projected to account for 45 percent of the world total this year. U. S. Ending Stocks of all grains are projected to increase from 62 million metric tons last year to 95 million, a 33 million ton increase. Obviously, our major customers as well as our competitors are content to let us be the world's granary for agricultural commodities. Of that 95 million metric tons of carryover stocks, more than 52 million metric tons is projected to be in farmer-owned reserve.

Combine all those factors with a stagnant U. S. economy stifled by high interest rates, it is not difficult to understand the severe financial condition of U. S. farmers. Net farm income has been at low levels for two consecutive years. In 1981, it was $23 billion and unofficial estimates place 1982 net farm income between $13-18 billion. In addition the value of agricultural exports this year is projected below last year's level and the first decline in the value of exports since 1969.

Since the early 1970's with the huge expansion of exports, U. S. agriculture has become highly dependent on access to international markets. Increasingly, the American farmer is finding it difficult to compete in international trade on a free-market basis. Many foreign countries provide export subsidies or impose trade barriers which have threatened our export markets.

The European Community, through its Common Agricultural Policy, maintain high domestic support prices for agricultural commodities through a system of import tariffs and variable import levies. These high support levels encourage excess production. With no limit placed on production, the excess is disposed in international markets through the use of export subsidies. Consequently, the EC maintains low carryover stocks.

Since the inception of the CAP, the EC's share of world food product exports has increased gradually to the point that last year for the first time they became a net grain exporter. The EC now accounts for more than 15 percent of total world wheat exports.

The result of these subsidized exports is to reduce the export volume and place a dampening effect on prices of agricultural commodities. We are increasingly facing competition from EC export subsidies in third country markets.

Currently, soybeans and corn gluten feed are not subject to the variable levy. However, there have been proposals to impose a tax on vegetable oils and unbind the levy on corn gluten.

Greece is to join the EC this year with Spain and Portugal becoming member states in 1983. Adding these states will only exacerbate the surplus olive oil problem in the EC and put indirect pressure on U. S. exports of soybeans to the EC.

Japan is the single most important market for U. S. agricultural exports. The value of U. S. farm exports to Japan in 1980 was $6.1 billion and 15 percent of total 1980 agricultural exports.

Nonetheless, Japan maintains significant protection of its agricultural sector. They have developed a system of formal and informal trade barriers, primarily on semi-processed and processed goods. However, some raw products such as corn for industrial use, wheat and rice are under quota.

In addition to quotas, the Japanese maintain tariffs, administrative guidance, state trading, plant and animal quarantine, health regulations and standards and a generous rice support program.

Section 301 of the Trade Act of 1974 provides guidelines for presidential action to enforce U. S. rights under trade agreements and respond to certain foreign trade practices. Several petitions have been registered by U. S. industries concerning unfair trade practices by the EC on several agricultural commodities. The petition on wheat flour was filed in 1975 and is yet to be resolved. Numerous industry petitions concerning EC import duties on U. S. citrus products have been filed since 1970. More recently, petitions have been filed covering poultry, sugar, pasta, and canned fruits and raisins.

It is obvious that the dispute settlement procedures provided in the GATT and the accompanying Subsidies Code have not been particularly effective in resolving our trade disputes. However, this administration has taken a more aggresive stance in utilizing these settlement procedures and I applaud them for their efforts.

Various bills have been introduced in both the House and the Senate to strengthen and expand existing trade laws and to include specific references to reciprocal market access and national treatment as an integral objective of U. S. trade policy.

I too, intend to introduce legislation which will address the specific trade problems that we have encountered in our export of agricultural commodities. I believe it is time to send a strong signal to our customers and trading partners that we intend to continue to be a reliable supplier and will not tolerate unfair intrusion to our markets through tariff and nontariff trade barriers.

Thank you, Mr. Chairman.

Statement by Secretary of Agriculture John R. Block
before the House Committee on Agriculture
March 9, 1982

Mr. Chairman, I am pleased to meet with the Committee to discuss what is being done to expand U.S. agricultural exports.

The Administration shares your appreciation of the pressing need to export more agricultural products, not only for the benefit of the farm community, but for the U.S. national economy as well.

We appreciate the support that this and other committees of Congress have given to export expansion. We appreciate also the individual efforts of those members who joined in presenting a united front against unfair trade practices to officials of the European Community and against unfair trade barriers to officials of Japan.

This broad support is especially welcome at a time when world economic and supply factors and increased competition are inhibiting export growth and putting downward pressure on farm prices.

We in the Department, with full Administration support, are making an intensive effort to overcome the obstacles to export growth, and we welcome your interest and your counsel.

As you know, substantial, sustainable export growth is essentially a long-term proposition. Sudden, dramatic gains are rare. They are the product of unusual circumstances such as the world crop shortfalls of the 1970's, or — going back in history — the relief shipments of the mid 1940's and mid 1960's.

President Reagan's lifting of the embargo on agricultural sales to the Soviet Union last April was a definite stimulus to exports.

That decision on behalf of American agriculture, and the subsequent one-year extension of the grain sales agreement, opened the gate for sales to the Soviets of about 14 million tons of wheat and corn, 700,000 tons of soybeans, and lesser amounts of other U.S. agricultural products since the embargo was lifted.

That is business that we vitally need. Unfortunately, it was preceded by heavy costs in lost farm income, erosion of confidence in the United States as a supplier, and increased competition in world markets that was caused by the embargo that the President revoked.

The campaign to expand the export momentum has three primary thrusts: (1) direct personal approaches to new markets; (2) pinpoint market development planning and execution, and (3) a concerted, governmentwide effort to remove barriers to trade with U.S. agriculture's two largest customers, The European Community and Japan.

USDA studies show that the increase in competition since the embargo was invoked in 1980 may be the principal factor limiting our exports of primary commodities this year.

We are making a major effort to meet the competition head on. We are well into a campaign to increase exports of grains and oilseeds by targeting for intensive market development emerging markets with identified growth potential and a strong competitor presence.

As a first step, we send a joint government/industry team to the target country. The team's job is to identify the import wants and needs, and the problems of trade in that country and find out what can be done to help them increase their imports of U.S. commodities.

Thus far, we have sent these market development teams, each of which includes producer representation, to 12 countries in Africa, Latin America, and the Far East. I have made three market expansion trips myself, including a joint mission with Secretary of Commerce Baldrige to West Africa. Deputy Assistant Secretary of Commerce Joe Dennin will discuss that mission for the Committee.

Almost without exception, the reaction of host country government and trade officials with whom the teams have met has been positive; their hosts have been pleased — and in most cases surprised — that the U.S. government and the private agricultural sector are teaming up to better serve their import needs.

Already there have been positive results. In China, for example, agreement was reached for U.S. wheat, feed grains, and soybeans market development cooperators to open offices. Plans also are underway for the construction in Beijing of a pilot flour mill and a demonstration noodle plant.

Elsewhere, during team visits a P.L. 480 agreement for wheat sales to Morocco was signed and export credit guarantees to Brazil were increased.

The real proof of this team approach will lie, of course, in the follow up, market by market, to the initial contacts. We are doing that, and we are confident that the result will be better trade servicing, and credit and other aids tailored more specifically to growth potential as a consequence of better understanding of the market and more precise market development planning.

With the constraints that the economic climate has placed on government resources, planning has become more than ever the key to success in market development. To get the most from what we have, it is absolutely necessary to know what countries and what commodities offer the best potential and what tools will do the best job.

Over the past 12 months, the Department has — in its Foreign Agricultural Service — developed a planning system to answer those questions in a quantifiable way.

Very briefly, it works this way: using computer technology and with extensive participation by market development cooperators, we are able to select export commodities by country, pinpoint the constraints to export growth of each, and identify the best course to take to increase sales. From there, we are able to project in dollar terms the results we could expect from each investment of market development time and money.

As most of you know, our market development cooperators are nonprofit agricultural producer and trade groups organized along commodity lines to expand export markets for their particular commodity. Their work is supervised by the Foreign Agricultural Service and funding is shared. These groups have been a mainstay of the USDA market development effort for 25 years, and we currently have joint projects with 54 cooperators working in more than 80 countries.

Under the new planning system, commodity and marketing specialists from Government, the private trade and the cooperator associations work together to analyze the constraints to export growth of U.S. commodities in each foreign market. Credit needs, market access and other problems are analyzed and assessment is made of market development activities that could overcome the constraints.

The result is a package of impediments to export growth and ways to overcome them. From these we can rank by priority the markets and activities on which to focus our resources — personnel, trade barrier removal, direct market development activities, and credit.

We also are paying special attention to increasing exports of value-added products, encouraging private industry to participate, with help from state departments of agriculture. Expanding this business, now worth $12-$13 billion a year, would create processing and related jobs and add to U.S. agricultural export earnings.

Credit, both short and long-term, has been important to agricultural market development since P.L. 480 — the Agricultural Trade Development and Assistance Act — became law in 1954, accounting for around a third of U.S. agricultural exports for several years after that.

P.L. 480 was a substantial factor in the development of U.S. markets that today are worth more than a billion dollars — Korea and Taiwan are two examples. Today, less than 5 percent of U.S. exports are made on concessional terms, but credit continues important to the movement of U.S. commodities and to export development.

As you know, the President last year authorized an increase of $500 million in authorizations for the Commodity Credit Corporation GSM 102 program of short-term export credit guarantees spread over fiscal years 1981 and 1982. We have moved as quickly as possible to make full use of the total authorization of $2.5 billion for this fiscal year.

Credit guarantees last month covering a wide range of commodities for shipment to Portugal, Indonesia, Nigeria, and Uruguary brought the commitments for the current year to $1.8 billion. We plan to commit the full amount as soon as possible.

The Congress made almost $700 million available for P.L. 480 concessional sales this year, and almost the full value has been allocated; a minimum reserve is held for unforseen needs. We recognize the long-term market development value of P.L. 480 assistance, but we are exploring ways to provide some more immediate returns to U.S. agriculture from these investments.

For the first time, a P.L. 480 agreement — the one signed with Egypt last month — was accompanied by a letter of intent from the recipient government assuring that a fair share of its commercial imports would come from the United States.

We are studying the possibility of applying similar assurances to our technical and scientific assistance programs in developing countries.

One of the effects of the downturn in world economic growth has been to exacerbate protectionism and other trade-disruptive tendencies among some of our trading partners, making effective trade policy more than ever necessary to export expansion.

These tendencies have been increasingly apparent in the policies of the European Community. We are especially concerned about an excessive and growing use by the EC of export subsidies and threats to access to the EC market for U.S. export commodities.

There is no question but what the EC use of subsidies, provided through the Common Agricultural Policy, has hurt U.S. agriculture. The subsidies interfere with U.S. trade in other countries and put downward pressure on U.S. prices. USDA analysis indicated, for example, that increased EC exports of subsidized wheat cost U.S. producers 50 cents a bushel on their wheat crop last year, a loss in net income of $1.7 billion.

The aggressive EC use of subsidies is not confined to grains. The EC has moved from a substantial importer to a significant exporter of a number of major agricultural products, largely through the use of subsidies. These include beef and veal, wheat, sugar, and poultry meat.

The United States also is concerned about access to the EC market itself for many products, which are protected by variable import levies and other devices.

The most pressing concerns in terms of potential cost in U.S. exports are EC discussions of an internal tax on vegetable oils, which would threaten a U.S. market worth over $3 billion for soybeans and soybean products, and talk of impeding access for nongrain feed ingredients, a market worth about $700 million yearly.

The decision was made early in this Administration that the United States would no longer tolerate what we consider the unfair trade practices of the EC.

It was recognized that the "tut-tut," fragmented approach of the past, in which U.S. industrial interests were likely to go one way and agriculture another, did not work.

To focus these efforts, USDA took the lead in developing a comprehensive interdepartmental strategy for U.S.-EC trade relations. This plan was approved at the Cabinet level, and for the first time the United States is taking a unified, governmentwide approach to the problems of agricultural trade with the European Community.

Since last spring, our message on trade policy has been carried to the Community by Under Secretary Lodwick and me, by Secretaries Haig and Baldrige, Ambassador Brock and others in joint meetings and individual visits.

The message is simply that the United States will no longer tolerate the trade disruptions caused by unfair EC practices. We are willing and eager to work with the EC to solve trade issues, but if that fails we are prepared to defend our trading rights.

We were very pleased last summer when, after vigorous U.S. representations, the Community laid aside, at least temporarily, its proposal to impose an internal tax on vegetable oils.

We are pleased, also, with the results of the historic first meeting in Brussels in December of Secretary Haig, Ambassador Brock and me with President Thorn, Agriculture Commissioner Dalsager and other high-level Community officials.

During this very frank discussion, it was agreed that agricultural issues were the most difficult and would require priority efforts for resolution.

We met again in February when, as you know, members of the Congress joined in expressing the U.S. resolve to protect our trading rights. Further discussion are tentatively set later this month.

We are backing up these talks with action. Last month, for the first time since the passage of the Trade Act of 1974, the U.S. brought a complaint against the EC before a panel of the General Agreement on Tariffs and Trade (GATT) in response to a petition filed under Section 301 of the Act for relief from unfair trade practices.

The complaint, filed more than six years ago, was made by the Miller's National Federation protesting EC subsidies on wheat flour. The panel convened on February 24 in Geneva and will hear further testimony March 11. Similar petitions are in the GATT consultation process covering poultry, canned fruit and raisins, pasta products and sugar.

We also are actively pursuing a 301 petition filed by the U.S. citrus industry in an effort to settle a long-standing dispute over preferential EC tariffs on Mediterranean citrus products.

As you know our primary trade issue with Japan is market access, and we are pushing the Japanese hard to liberalize imports of both agricultural and industrial products.

In Tokyo last October, I pressed for total removal of Japan's import quotas on beef and citrus products and for them to implement the agreement on U.S. leather imports and ease restrictions on a number of other agricultural products.

We continued this pressure in the ensuing months, and a few weeks ago Japan announced a list of measures to ease nontariff barriers, including 36 that affect agricultural trade. This is a useful first step, but it does not go nearly far enough. The agricultural import quotas were not addressed, and we will be making a major push for further liberalization in the months ahead.

The Administration is working within the established rules to resolve the trade problems facing agriculture. The GATT system is far from perfect, but we plan to exhaust all its possibilities. It is the only mechanism standing between a rational system of world trade and the chaos of a trade free-for-all that would set us back 50 years.

As I suggested earlier, the need for intensified market development and trade policy efforts is even more urgent now because of the damage done by the embargo of 1980 and the large supply of U.S. farm commodities.

The lifting of the embargo of 1980 recognized the fact that the embargo of agricultural products is not likely to be successful, especially without total cooperation of other exporters around the world. This was amply demonstrated during the 15 months of the embargo on sales to the Soviet Union.

As we have seen beginning with the soybean embargo in 1973, agricultural embargoes by the United States depress farm prices, close off markets, and stimulate competition.

Further, they are costly to taxpayers, who paid a bill of almost $2 billion as a result of government actions to ease the impact of 1980 embargo. And budget exposure from increased stocks and the loss of trade continues.

Finally, embargoes damage the U.S. reputation, built carefully over decades, as a reliable supplier of agricultural products. The short term effect of the embargo of 1980 has been to put U.S. agriculture in the role of a residual supplier to the Soviet Union, and we don't know if we can change this. We do know that almost 9 years after the soybean embargo of 1973 the U.S. share of world trade in soybeans and products has slipped from 85 percent to 72 percent.

This negative image has been of very deep concern in the Department of Agriculture. We have made supply assurance a principal objective on every occasion with customers and potential customers.

I have stressed this point in countless meetings — here and in foreign countries — with government officials and importers alike, and the same message is delivered by members of my staff, by our sales teams, our agricultural attaches and counselors abroad, FAS marketing specialists, and the USDA market development cooperators.

We have studied the provisions of the Agriculture and Food Act of 1981 that call for the development of embargo contingency plans. Our preliminary consideration has raised the question of whether it is possible to develop a structured plan — one in which we move from Point A to Point B and on down the line — that would be viable.

There appear to be too many variables — almost none of them predictable — that would bear on the situation. There are global weather, global supplies, prices, the embargo targets, the nature of the embargoed commodities, their importance to U.S. agriculture and its supporting industries, quantities already in the export pipeline, and other uncertain factors.

I believe that the Department would be able to move quickly in keeping with the requirements of the Agriculture and Food Act to protect farm income and minimize disruption in the event such action became necessary.

At this point, I do not think it wise to rush into any plan that would lock us into a course of action that might not be appropriate to the circumstances if the plan were needed. And let me emphasize this: I am convinced that such a situation is highly unlikely.

I will close, Mr. Chairman, by saying that we are bullish on the prospects for the future of U.S. agricultural export growth. World demand for food is rising, and it is rising fastest in the markets we have targeted for the most intensive market development attention. Barring global disaster, this demand will continue to rise.

Our efforts to get a full share of this demand for U.S. agriculture are directed particularly at export expansion in this difficult year, but they are based on the long-term objective of sustainable growth on which the well-being of U.S. agriculture will depend.

TESTIMONY OF
AMBASSADOR WILLIAM E. BROCK, III
U.S. TRADE REPRESENTATIVE
BEFORE
THE COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

MARCH 9, 1982

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, IT IS A PLEASURE TO BE WITH YOU TODAY TO DISCUSS AGRICULTURAL TRADE POLICY ISSUES. OVER THE PAST MONTH OR SO I HAVE APPEARED BEFORE SEVERAL COMMITTEES OF THE CONGRESS TO PRESENT THE ADMINISTRATION'S VIEWS ON A NUMBER OF TRADE PROBLEMS AND THE MANNER IN WHICH WE ARE DEALING WITH THEM. RATHER THAN REPEAT PREVIOUS TESTIMONY, I THINK WHAT I WOULD LIKE TO DO THIS MORNING WOULD BE TO BRIEFLY SUMMARIZE SOME OF THE ISSUES AND THEN SPEND THE REST OF OUR SESSION RESPONDING TO YOUR COMMENTS AND QUESTIONS.

LET ME BEGIN BY NOTING THAT THE ADMINISTRATION SHARES YOUR INTEREST IN PROMOTING AND EXPANDING THE EXPORTATION OF U.S. AGRICULTURAL PRODUCTS. IT IS TO THIS END THAT WE HAVE SET OUT TO REMOVE THE DISTORTIONS IN INTERNATIONAL TRADE THAT HAVE RETARDED SUCH EXPORTS.

YOU ARE AWARE THAT WE HAVE A VERY BASIC DISAGREEMENT WITH THE EUROPEAN COMMUNITY ON THE MATTER OF THEIR EXPORT SUBSIDIES ON A NUMBER OF PRODUCTS. THEY CONTEND THAT THE RULES OF THE GATT AND THE SUBSIDIES CODE ALLOW THEM TO USE THEIR EXPORT RESTITUTIONS TO GAIN SHARES OF THE WORLD MARKET. HOWEVER, WE FEEL THAT THEY HAVE OBTAINED AN INEQUITABLE SHARE OF WORLD TRADE AS A RESULT OF SUBSIDIES. AS A CONSEQUENCE, WE ARE NOW IN THE DISPUTE SETTLEMENT PROCESS ON WHEAT FLOUR, POULTRY, SUGAR, AND PASTA. WE ALSO ARE IN THE PROCESS OF CONSULTATION ON CANNED AND DRIED FRUIT, WHICH INVOLVES A DOMESTIC PROCESSING SUBSIDY.

IN ADDITION TO THE SUBSIDY ISSUE, THERE IS ALSO THE MATTER OF A PREFERENTIAL ARRANGEMENT WITH MEDITERRANEAN COUNTRIES THAT GIVES THEIR CITRUS A MUCH LOWER DUTY IN THE EC THAN THAT REQUIRED TO BE PAID FOR SUCH FRUIT IMPORTED FROM THE UNITED STATES. WE HAVE ASKED FOR ARTICLE XXIII:1 CONSULTATIONS WITH THE COMMUNITY LATER THIS MONTH ON THIS LONG-STANDING ISSUE.

MR. CHAIRMAN, YOU AND THE MEMBERS OF THIS COMMITTEE, AS ARCHITECTS OF U.S. AGRICULTURAL POLICY, ARE AWARE THAT WHILE THE BASIC THRUST OF ITS FORMULATION IS TOWARD DOMESTIC INTERESTS, WE ARE EVER MINDFUL OF OUR INTERNATIONAL OBLIGATIONS. WE APPROACH OUR RELATIONSHIP WITH THE COMMUNITY IN THE SAME LIGHT. AS I HAVE SAID ON OTHER OCCASIONS, SO LONG AS THE COMMON AGRICULTURAL POLICY HAS NO RAMIFICATIONS FOR THE UNITED STATES, IT SHOULD BE VIEWED AS A SOLELY INTERNAL MATTER FOR THE EC. HOWEVER, WHEN IT BEGINS TO AFFECT OUR TRADE, WE HAVE

A LEGITIMATE RIGHT TO COMPLAIN. THE GATT CASES THAT WE HAVE BROUGHT DO NOT REPRESENT A CHALLENGE OF THE CAP, BUT SIMPLY A RECOGNITION THAT WE AND THE COMMUNITY DISAGREE ON THE EXTENT TO WHICH THEIR AGRICULTURAL TRADE POLICIES ARE IN CONFORMITY WITH THEIR GATT OBLIGATIONS. WE ARE ASKING IMPARTIAL PANELISTS TO DETERMINE WHOSE INTERPRETATION IS CORRECT.

ON JANUARY 28, THE EC COMMISSION MADE PUBLIC A PROPOSAL THAT THEY WILL SUBMIT TO THE COUNCIL TO RAISE THE LEVY ON IMPORTS OF BRAN. THE LEVY ON BRAN IMPORTS IS NOT BOUND. WE HAVE BEEN SUPPORTIVE OF REPRESENTATIONS MADE BY OTHER EXPORTERS OF BRAN TO THE EC WHO HAVE A MORE SUBSTANTIAL SUPPLIER INTEREST IN THESE PRODUCTS THAN WE DO. HOWEVER, WE ARE VERY CONCERNED THAT THE PROPOSALS TO INCREASE THE DUTY ON BRAN WILL LEAD TO PROPOSALS TO INCREASE THE DUTY ON OTHER FEED SUBSTITUTES SUCH AS CORN GLUTEN FEED WHERE OUR SUPPLIER INTEREST IS SUBSTANTIAL. WE ARE PURSUING EVERY OPPORTUNITY TO MAKE KNOWN TO EC AND MEMBER COUNTRY REPRESENTATIVES OUR ANXIETY OVER PROPOSED MEASURES WHICH WOULD IMPAIR OUR EXPORTS OF THESE PRODUCTS.

JAPAN IS AN AREA THAT I KNOW IS OF GREAT INTEREST TO THOSE ASSEMBLED HERE TODAY. THIS WEEK MY DEPUTY, DAVID MACDONALD, IS IN TOKYO, ALONG WITH REPRESENTATIVES OF SEVERAL OTHER AGENCIES, TO MEET WITH JAPANESE OFFICIALS TO AGAIN STRESS THE SERIOUSNESS WITH WHICH WE VIEW THE BARRIERS THAT NOT ONLY RETARD ENTRY INTO THAT MARKET BUT ALSO THOSE THAT DISCOURAGE CONSUMPTION ONCE THE INITIAL BARRIERS HAVE BEEN OVERCOME.

Ambassador Macdonald and our other officials will be addressing not only the obvious restrictions such as import quotas on agricultural, marine and leather commodity items, but also such other measures as unreasonably stringent health and sanitary requirements and import procedures that discourage U.S. exporters from even attempting to penetrate the market. I am sure that the members of the Committee have heard many of the same stories I have. Exporters of dried fruit find that the Japanese tolerance for sulfur dioxide is lower than for that found naturally in fresh fruit. Shipments of canned juice are rejected because the polyethlene liner is too thin yet it meets requirements in other countries. Containers of fishery products may be delayed several days if they contain, say, lobster, crabs, and salmon. Each may require a different inspector, causing the container to be held until each product is inspected. The examples go on and on and serve to demonstrate that the bias against imports goes deeply into the entire Japanese trading system. Removing that bias is going to be a long process--but the process has begun.

I was asked to comment on Section 1205 of the Agriculture and Food Act of 1981 and on the question of embargoes. Secretary Block will wish to comment fully, but permit me to repeat the President's assurance that if it should ever become necessary to embargo exports, agriculture will not be singled out.

Secretary Block will also want to address the question of the Agricultural Export Credit Revolving Fund, so I will limit my remarks on that to simply saying that I enjoy having a number of tools at our disposal to maintain and expand markets. On the matter of other ways of encouraging exports, I assure you that we have been working closely with USDA on means of making our exports more attractive; innovative financing is certainly one of the mechanisms that is being examined. Cables have also been sent to U.S. embassies overseas asking for a listing of barriers which impede U.S. exports of value added agricultural products.

At this point, I think I will stop and am prepared to respond to your questions.

STATEMENT BY
ROBERT D. HORMATS
ASSISTANT SECRETARY OF STATE
FOR ECONOMIC AND BUSINESS AFFAIRS
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
MARCH 9, 1982

INTRODUCTION

IT IS A PLEASURE FOR ME TO APPEAR BEFORE THIS COMMITTEE TO DISCUSS AGRICULTURAL EXPORTS AND TRADE. I WOULD LIKE TO USE THE OPPORTUNITY TO DISCUSS THE ADMINISTRATION'S ONGOING EFFORTS TO IMPROVE THE PROSPECTS FOR OUR AGRICULTURAL EXPORTS, AND THE STATE DEPARTMENT'S ROLE IN THE PROCESS. OF PARTICULAR IMPORTANCE TO THE LONG-TERM PICTURE ARE OUR AGRICULTURAL TRADE RELATIONS WITH THE EUROPEAN COMMUNITY AND JAPAN, WHICH I WILL DESCRIBE IN SOME DETAIL. TO COMPLETE THE PICTURE I WILL COMMENT ON AGRICULTURAL TRADE WITH THE DEVELOPING COUNTRIES AND THE CENTRALLY PLANNED ECONOMIES.

LET ME STATE AT THE OUTSET THAT IMPROVING EXPORT OPPORTUNITIES FOR OUR AGRICULTURAL PRODUCTS IS BOTH A MAJOR PERSONAL PRIORITY FOR ME AND FOR OUR FOREIGN ECONOMIC POLICY. I BELIEVE STRONGLY THAT US AGRICULTURAL EXPORTS REPRESENT A MAJOR SOURCE OF STRENGTH TO THE US ECONOMY, AND TO THE U.S. TRADE POSITION IN THE WORLD.

THERE IS NO NEED TO TELL THIS COMMITTEE ABOUT THE IMMENSE ECONOMIC IMPORTANCE OF U.S. AGRICULTURE. FARM PRODUCTS DIRECTLY AND INDIRECTLY ACCOUNT FOR ABOUT 20% OF OUR GNP AND ABOUT 23 MILLION JOBS. AGRICULTURAL EXPORTS ACCOUNT FOR ROUGHLY ONE-FIFTH OF ALL AMERICAN EXPORTS, AND BROUGHT IN ABOUT $45 BILLION IN THE LAST FISCAL YEAR. ONE OF EVERY THREE ACRES OF HARVESTED U.S. CROPLAND NOW PRODUCES FOR OVERSEAS MARKETS. AGRICULTURAL EXPORTS NOT ONLY IMPROVE OUR BALANCE OF PAYMENTS, THEY ALSO BOOST DOMESTIC ECONOMIC ACTIVITY. FOR EVERY $1 BILLION IN AGRICULTURAL EXPORTS, IT IS ESTIMATED THAT OVER 30,000 JOBS ARE CREATED.

THE U.S. IS THE WORLD'S NUMBER ONE FOOD POWER. WE DOMINATE THE WORLD MARKETS FOR GRAIN AND SOYBEANS AND WE ARE AN IMPORTANT FACTOR IN THE MARKETS FOR MEAT, POULTRY, AND FRUITS AND VEGETABLES. THE U.S. IS ALSO A SIZEABLE IMPORTER OF FOOD PRODUCTS FROM AROUND THE WORLD, TOTALLING $17 BILLION IN FY 1981. ABOUT ONE-THIRD OF OUR AGRICULTURAL IMPORTS REPRESENT COMMODITIES WHICH ARE NOT PRODUCED AT ALL IN THE U.S., SUCH AS THE COFFEE, TEA, BANANAS, AND COCOA IMPORTED FROM DEVELOPING COUNTRIES. OUR ENORMOUS ROLE IN WORLD AGRICULTURAL TRADE, BOTH AS AN EXPORTER AND IMPORTER, BRINGS AGRICULTURAL QUESTIONS TO THE CENTER OF OUR RELATIONS WITH MANY OTHER COUNTRIES.

AGRICULTURAL TRADE POLICY

THIS ADMINISTRATION IS COMMITTED TO BUILDING A LIBERALIZED WORLD TRADING SYSTEM WHICH PROVIDES INCREASED OPPORTUNITIES FOR AGRICULTURAL EXPORTS. WITH LARGE SUPPLIES AND SLUGGISH WORLDWIDE DEMAND OUR FARMERS NEED EXPORT OPPORTUNITIES MORE THAN EVER. BUT THE CURRENT INTERNATIONAL RECESSION INCREASES THE COMPETITION FOR THIRD MARKETS, AND THE PRESSURES ON OTHER GOVERNMENTS TO IMPLEMENT OR RETAIN PROTECTIONIST MEASURES.

DURING THE PAST YEAR, WE HAVE FOCUSSED ON BRINGING OTHER COUNTRIES TO UNDERSTAND BETTER THE IMPORTANCE THE U.S. ATTACHES TO AGRICULTURAL TRADE ISSUES. THE DAY HAS LONG SINCE PASSED WHEN WE COULD IGNORE ACTIONS THREATENING OUR MARKETS OR TREAT AGRICULTURAL TRADE PROBLEMS AS MINOR ELEMENTS OF OUR RELATIONSHIPS. UNDER THE VERY VIGOROUS LEADERSHIP OF THE DEPARTMENT OF AGRICULTURE, ADMINISTRATION OFFICIALS ACTIVELY AND FORCEFULLY HAVE MADE THIS POINT TO OTHER GOVERNMENTS IN NUMEROUS BILATERAL AND MULTILATERAL MEETINGS. AN IMPORTANT EXAMPLE WAS THE UNPRECEDENTED MEETING IN BRUSSELS ON DECEMBER 11 BETWEEN SECRETARY HAIG, SECRETARY BLOCK, AND AMBASSADOR BROCK WITH EC PRESIDENT THORN AND INCLUDING AGRICULTURE COMMISSIONER DALSAGER. AGRICULTURAL ISSUES WERE PROMINENT IN THOSE DISCUSSIONS.

OUR BILATERAL EFFORTS TO IMPROVE THE TRADE CLIMATE FOR AGRICULTURAL EXPORTS CENTER ON IMPROVING ACCESS FOR OUR

PRODUCTS AND DEFENDING VIGOROUSLY OUR POSITION IN WORLD MARKETS. MULTILATERALLY WE ARE MAKING INCREASED USE OF THE GATT FRAMEWORK TO CHALLENGE ACTIONS WHICH IMPAIR OUR TRADING RIGHTS. FOR INSTANCE, WE ARE SPECIFICALLY CHALLENGING EC TRADE PRACTICES IN WHEAT FLOUR, POULTRY, SUGAR, PASTA, CITRUS AND CANNED FRUITS AND RAISINS.

IN ADDITION TO OUR EFFORTS TO IMPROVE THE TRADING SYSTEM, SPECIFIC PROMOTION PROGRAMS ARE ALSO AN IMPORTANT PART OF EFFORTS TO INCREASE AGRICULTURAL EXPORTS. ONE OF THE MOST SUCCESSFUL AGRICULTURAL EXPORT PROMOTION EFFORTS IS THE MARKET DEVELOPMENT COOPERATOR PROGRAM, WHICH JOINS OVER 50 NON-PROFIT AGRICULTURAL COMMODITY ASSOCIATIONS WITH USDA'S FOREIGN AGRICULTURAL SERVICE IN MARKET DEVELOPMENT ACTIVITIES AROUND THE WORLD. THE COOPERATOR PROGRAM IS PARTIALLY FUNDED BY USDA AND PARTIALLY BY THE MEMBERS OF THE COOPERATOR ORGANIZATIONS. NEARLY ALL U.S. FARMERS CONTRIBUTE EITHER DIRECTLY OR INDIRECTLY TO THE PROGRAM. THE PROGRAM'S SUCCESS SHOWS WHAT PUBLIC/PRIVATE SECTOR INVOLVEMENT IN EXPORT PROMOTION CAN ACCOMPLISH.

OUR TRADE POLICY AND EXPORT PROMOTION EFFORTS DEPEND IMPORTANTLY UPON THE ASSISTANCE OF OUR EMBASSIES OVERSEAS, WHICH ALSO CONTRIBUTE INFORMATION ON AGRICULTURAL EXPORT OPPORTUNITIES AND EXPLAIN THE BENEFITS OF U.S. AGRICULTURAL PRODUCTS TO HOST GOVERNMENT OFFICIALS.

STATE DEPARTMENT ROLE

THIS BRINGS ME TO THE ROLE OF THE STATE DEPARTMENT IN INTERNATIONAL AGRICULTURAL POLICY. I CAN ASSURE YOU THAT THE STATE DEPARTMENT VIEWS A STRONG AGRICULTURAL EXPORT SECTOR AS AN IMPORTANT COMPONENT OF OUR NATIONAL INTEREST.

THE STATE DEPARTMENT IS CLOSELY INVOLVED IN THE ONGOING EFFORTS TO INCREASE ACCESS FOR OUR FARM PRODUCTS OVERSEAS BY PRESSING FOR THE REDUCTION AND ELIMINATION OF OTHER COUNTRIES' TRADE BARRIERS. BECAUSE FOOD ISSUES BEAR IMPORTANTLY ON NATIONAL POLITICAL AND SOCIAL CONCERNS, BARRIERS AGAINST AGRICULTURAL PRODUCTS ARE AMONG THE MOST DIFFICULT TO ADDRESS. THUS, WE MUST UNDERSTAND NOT ONLY THE ECONOMIC BUT ALSO THE POLITICAL CONTEXT OF AGRICULTURAL TRADE BARRIERS IF WE ARE TO SUCCESSFULLY NEGOTIATE THEIR ELIMINATION.
IN CONJUNCTION WITH THE EXPERTISE OF USDA ON AGRICULTURAL MATTERS AND USTR'S ON TRADE, THE STATE DEPARTMENT'S FOREIGN POLICY EXPERTISE IS A KEY ELEMENT OF OUR STRATEGY TO LIBERALIZE THE WORLD AGRICULTURAL TRADING SYSTEM.

THE DEPARTMENT ALSO SUPPORTS OUR AGRICULTURAL EXPORTERS IN TRADE DISPUTES INVOLVING SUCH ISSUES AS QUALITY, PAYMENT AND SANITARY STANDARDS. THROUGH OUR OFFICIALS IN WASHINGTON AND IN EMBASSIES ABROAD, WE PLAY AN ACTIVE AND IMPORTANT ROLE IN SUPPORTING USDA'S AGRICULTURAL EXPORT PROMOTION EFFORTS.

SHORTLY AFTER THIS ADMINISTRATION CAME INTO OFFICE, SECRETARY HAIG SENT A MESSAGE TO OUR AMBASSADORS OVERSEAS STRESSING THE IMPORTANCE HE PERSONALLY ATTACHES TO THE PROMOTION OF AGRICULTURAL EXPORTS AS ONE OF THE CHIEF OBJECTIVES OF OUR EMBASSIES. I FOLLOWED THIS MESSAGE WITH ONE STRESSING THE PARTICULAR ADVANTAGES TO THE UNITED STATES OF SALES OF VALUE-ADDED AGRICULTURAL EXPORTS, AND ASKING EMBASSIES TO GIVE SPECIAL ATTENTION TO PROMOTING VALUE-ADDED PRODUCTS. WE HAVE FOLLOWED UP BY ASKING OUR EMBASSIES TO LET US KNOW WHAT THEY ARE DOING TO PROMOTE VALUE-ADDED EXPORTS AND TO PROVIDE ADVICE ON MARKETING WHICH COULD BE USEFUL TO U.S. FOOD PROCESSORS. WE HAVE RECEIVED A NUMBER OF ENTHUSIASTIC RESPONSES IDENTIFYING POSSIBLE MARKET OPPORTUNITIES AND WAYS IN WHICH BETTER COORDINATION WITH WASHINGTON WOULD BE USEFUL. I PLAN TO TAKE UP THESE SUGGESTIONS WITH THE OTHER AGENCIES AS SOON AS ALL THE REPLIES ARE IN.

US-EC AGRICULTURAL TRADE RELATIONS

NOW I WOULD LIKE TO TURN TO US AGRICULTURAL TRADE RELATIONS WITH THE EUROPEAN COMMUNITY. OUR AGRICULTURAL EXPORTS TO THE EC IN FY 1981 AMOUNTED TO $8.9 BILLION, ABOUT 20% OF TOTAL U.S. AGRICULTURAL EXPORTS. THE EC IS A KEY CUSTOMER FOR U.S. AGRICULTURAL PRODUCTS, AND WE HAVE A LARGE STAKE IN MAINTAINING OUR ACCESS TO THE EC MARKET.

NEVERTHELESS THE LONG-TERM TREND FOR IMPORTS OF MANY PRODUCTS IS DOWNWARD. FOR INSTANCE, IN THE 1960'S THE EC WAS A NET IMPORTER OF 20 MILLION TONS OF GRAIN ANNUALLY; IN 1980-81 THE EC WAS A NET GRAIN EXPORTER. WE MUST ALSO RECOGNIZE THAT THE EC'S EXPORT SUBSIDY PRACTICES THREATEN OUR SALES TO OTHER, GROWING MARKETS FOR AGRICULTURAL EXPORTS.

TRADE, AND ESPECIALLY AGRICULTURAL TRADE, DOES NOT, OF COURSE, TAKE PLACE IN A VACCUUM. DOMESTIC POLICIES AND ASPIRATIONS DEFINE FOREIGN TRADE AND POLICY ISSUES ON BOTH SIDES OF THE ATLANTIC. OUR DOMESTIC AGRICULTURAL POLICIES LARGELY REFLECT OUR MARKET-ORIENTED ECONOMIC PHILOSOPHY, WITH USE OF NON-MARKET SUPPORT PRICES FOR ONLY A FEW COMMODITIES. THE EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY--THE CAP--WAS DEVELOPED IN THE 1960'S PRIMARILY TO CREATE A UNIFIED INTERNAL MARKET, ENSURE INCREASING FARM INCOME AND PROMOTE GREATER SELF-SUFFICIENCY IN FOOD SUPPLIES. POLITICALLY AN AGRICULTURAL POLICY WAS AN ESSENTIAL ELEMENT FOR THE FORMATION OF THE COMMUNITY.

IMPLEMENTATION OF THE CAP HAS BEEN ACHIEVED BY MEANS OF HIGH PRICE SUPPORTS, WITHOUT MEANINGFUL PRODUCTION CONTROLS. VARIABLE LEVIES FOR MOST PRODUCTS INSULATE THE DOMESTIC MARKET FROM COMPETITION FROM OTHER, MORE EFFICIENT PRODUCERS. (THE EC IS COMMITTED UNDER THE GATT NOT TO IMPOSE A LEVY ON

SOYBEANS, WHICH NOW MAKE UP ALMOST HALF OF U.S. AGRICULTURAL EXPORTS TO THE EC.) THE IMPLEMENTATION OF THE CAP THROUGH THESE POLICES LED FIRST TO SELF-SUFFICIENCY IN KEY PRODUCTS AND THEN TO LARGE SURPLUSES. FOR INSTANCE, EC SELF-SUFFICIENCY IN 1978-79 WAS 118% OF REQUIREMENTS IN SOFT WHEAT, 113% IN BARLEY, 124% IN SUGAR AND 119% IN BUTTER. THE COSTS OF THE CAP HAVE APPROACHED STAGGERING LEVELS--THE TOTAL COST, WHEN MEMBER STATE EXPENDITURES FOR NATIONAL FARM PROGRAMS ARE INCLUDED, APPROACHES $40 BILLION. THE COST TO EC CONSUMERS, WHO PAY BOTH HIGH PRICES FOR FOOD AND SUBSIDIZE THE EXPORT OF SURPLUS PRODUCTION THROUGH THEIR TAXES, IS ENORMOUS.

THE COMMUNITY RESPONSE TO THE PROBLEMS OF SURPLUS HAS BEEN AN AGGRESSIVE AND HEAVILY SUBSIDIZED EXPORT PROGRAM. THE EC IS NOW THE THIRD LARGEST EXPORTER OF WHEAT (AFTER THE U.S. AND CANADA AND AHEAD OF AUSTRALIA AND ARGENTINA), THE WORLD'S LARGEST EXPORTER OF POULTRY AND THE SECOND LARGEST EXPORTER OF BEEF. IT IS A MAJOR AND GROWING EXPORTER OF DAIRY PRODUCTS AND SUGAR, AS WELL AS PROCESSED AGRICULTURAL PRODUCTS.

OUR REACTION TO THE DIRECTIONS OF EC POLICIES AND PRACTICES HAS BEEN STRONG. WHILE WE UNDERSTAND THE PROBLEMS FACED BY EUROPEAN LEADERS IN IMPROVING THE CAP, WE HAVE A RESPONSIBILITY TO OUR AGRICULTURAL COMMUNITY TO CLEARLY AND EFFECTIVELY EMPHASIZE OUR CONCERNS AND INTERESTS.

WE HAVE LONG ENCOURAGED EUROPEAN UNITY AND INDEED THIS IS, AND FOR A GENERATION HAS BEEN, A FUNDAMENTAL ASPECT OF AMERICAN POLICY. BUT WE HAVE ALSO STRESSED THAT IT IS NOT FAIR TO TRANSFER THE COSTS OF INTERNAL AGRICULTURAL PROGRAMS TO EUROPE'S TRADING PARTNERS.

WITH INCREASING EVIDENCE THAT THE EFFORTS IN THE EC TO REFORM THE CAP ARE INADEQUATE, OUR EFFORTS ARE ENTERING A NEW PHASE. PUBLICLY AND PRIVATELY, WE HAVE SPOKEN OUT STRONGLY AND CLEARLY ON THE NEED FOR EC AGRICULTURAL TRADE POLICIES THAT DO NOT IGNORE THE EFFECTS OF THE CAP ON OTHER EXPORTING COUNTRIES. THUS, IN A SERIES OF MEETINGS THIS YEAR AND LAST, WE HAVE EMPHASIZED TO THE EC THAT:

-- THE UNITED STATES OPPOSES AN EXPANSIVE EC EXPORT PROGRAM, BASED ON EXCESSIVE USE OF EXPORT SUBSIDIES AND OTHER OBJECTIONABLE FEATURES.

-- WE WILL CONTINUE TO TAKE VIGOROUS MEASURES TO PROTECT OUR ACCESS TO THE EC MARKET ITSELF AND, IN LINE WITH THE LIBERAL TRADE POLICY OF THIS ADMINISTRATION, SEEK TO IMPROVE THAT ACCESS WHERE POSSIBLE BY ARGUING FOR REDUCING BARRIERS CURRENTLY INTERFERING WITH OUR ABILITY TO MARKET OUR PRODUCTS WITHIN THE COMMUNITY.

-- WE WILL CONTINUE TO CHALLENGE UNFAIR EXPORT COMPETITION IN THIRD MARKETS. THIS WILL INCLUDE FULL USE OF THE GATT DISPUTE SETTLEMENT PROCEDURES AND PRESSURE IN OTHER FORA, AS APPROPRIATE. THUS WE WILL SEEK TO ENCOURAGE REFORM OF THE CAP BY REDUCING THE EC'S ABILITY TO SUBSTITUTE EXPORTS FOR MEANINGFUL REFORM.

US-JAPAN AGRICULTURAL TRADE

JAPAN IS ANOTHER KEY U.S. MARKET WHICH HAS UNREALIZED POTENTIAL AS A RESULT OF IMPORT BARRIERS. JAPAN IS NOT ONLY OUR CLOSEST FRIEND IN ASIA, BUT ALSO THE LARGEST SINGLE IMPORTER OF OUR AGRICULTURAL PRODUCTS. IN FISCAL YEAR 1981 JAPAN PURCHASED $6.7 BILLION WORTH OF U.S. FARM EXPORTS. WHILE JAPAN IS AN EXCELLENT MARKET FOR MANY U.S. AGRICULTURAL PRODUCTS, PARTICULARLY GRAINS AND SOYBEANS, A NUMBER STILL FACE RESTRICTIONS.

BOTH OUR EXPORTERS AND JAPAN'S CONSUMERS WOULD BENEFIT FROM A PROMPT CHANGE TO A MORE OPEN AGRICULTURAL MARKET. JAPANESE CONSUMERS NOW SPEND 23% OF THEIR DISPOSABLE INCOME ON FOOD, COMPARED TO 14% IN THE U.S., AND AT UPWARDS OF $15/LB, THOSE EXPENDITURES DON'T INCLUDE MUCH BEEF. PRICES OF CITRUS AND OTHER PRODUCTS ARE SIMILARLY INFLATED BECAUSE OF JAPANESE IMPORT RESTRICTIONS.

IN THE MOST RECENT ROUND OF MULTILATERAL TRADE NEGOTIATIONS WE OBTAINED CONCESSIONS ON ABOUT 100 AGRICULTURAL ITEMS FROM JAPAN, IMPROVING OUR ACCESS FOR PRODUCTS SUCH AS

BEEF AND CITRUS. NONETHELESS, THERE IS STILL A WAY TO GO BEFORE THE JAPANESE MARKET IS OPEN TO OUR FARM PRODUCTS. AT THE BILATERAL CONSULTATIONS ON TRADE GOING ON THIS WEEK IN TOKYO, WE ARE DISCUSSING WITH JAPAN THE NEED TO LIBERALIZE ALL THEIR AGRICULTURAL QUOTAS.

DEVELOPING COUNTRIES

THE OECD COUNTRIES ARE GOING TO REMAIN IMPORTANT MARKETS FOR U.S. AGRICULTURAL COMMODITIES, BUT IT IS IN THE DEVELOPING COUNTRIES THAT GROWTH IN DEMAND IS LIKELY TO BE GREATEST. IN FY 81 THE DEVELOPED COUNTRIES ACCOUNTED FOR 46% OF U.S. AGRICULTURAL EXPORTS, DOWN FROM 50% THE PREVIOUS YEAR. THE DEVELOPING COUNTRIES INCREASED THEIR SHARE FROM 35% TO 40%, WHILE THE CENTRALLY PLANNED, OR COMMUNIST, COUNTRIES REMAINED AT 14%.

THE DEVELOPING COUNTRIES ARE, OF COURSE, AN EXTREMELY DIVERSE GROUP, WHICH INCLUDES RELATIVELY PROSPEROUS NATIONS LIKE MEXICO, KOREA AND THE OPEC MEMBERS, ALREADY SIZEABLE U.S. MARKETS, AS WELL AS DESTITUTE NATIONS SUCH AS THOSE OF THE AFRICAN SAHEL REGION. IT IS CLEARLY IN THE U.S. INTEREST TO SEE DEVELOPING COUNTRIES SUCCEED IN ESTABLISHING SELF-SUSTAINING ECONOMIES. AS THESE COUNTRIES ACHIEVE STABLE ECONOMIC GROWTH, THEY WILL PROVIDE EXPANDING MARKETS FOR U.S. PRODUCTS, INCLUDING FOOD. THE MORE

AFFLUENT PEOPLE BECOME, THE HIGHER THEIR CONSUMPTION OF A WIDE VARIETY OF FOOD PRODUCTS.

IN ADDITION TO DEVELOPMENT ASSISTANCE DESIGNED TO BOOST ECONOMIC GROWTH, THE U.S. PROVIDES FOOD AID TO DEVELOPING NATIONS UNDER PL 480. OVER THE YEARS PL 480 HAS PROVEN TO BE A LONG-TERM MARKET DEVELOPMENT TOOL AS WELL AS A MEANS OF ALLEVIATING HUNGER. KOREA "GRADUATED" FROM THE PL 480 PROGRAM, BUT HAS BECOME A LARGE COMMERCIAL CUSTOMER FOR PRODUCTS FORMERLY PROVIDED ON CONCESSIONAL TERMS. IT IS A PRIME EXAMPLE OF THE WAY PL 480 CAN WORK IN THE INTEREST OF THE U.S. AND THE IMPORTING COUNTRY.

CENTRALLY PLANNED ECONOMIES

DURING THE SEVENTIES THE CENTRALLY PLANNED ECONOMIES, THE SOVIET UNION, CHINA, AND THE EASTERN EUROPEAN COUNTRIES, BECAME SIZEABLE CUSTOMERS FOR U.S. AGRICULTURAL PRODUCTS, PARTICULARLY GRAINS. I KNOW OUR GRAIN TRADE RELATIONSHIP WITH THE SOVIET UNION IS OF PARTICULAR INTEREST TO THE AGRICULTURAL COMMUNITY THESE DAYS AS A RESULT OF THE INCREASED BILATERAL TENSIONS BROUGHT ABOUT BY THE SOVIET-BACKED REPRESSION IN POLAND. I THINK THIS ADMINISTRATION'S POLICY ON US-SOVIET GRAIN TRADE HAS BEEN MADE VERY CLEAR. PRESIDENT REAGAN LIFTED THE EMBARGO AND HE HAS NOT IMPOSED ANY RESTRICTIONS ON U.S. GRAIN EXPORTS TO THE SOVIET UNION.

ALTHOUGH HE HAS RESTRICTED EXPORTS OF OTHER PRODUCTS SUCH AS OIL AND GAS REFINING EQUIPMENT. THE PRESIDENT WOULD OBVIOUSLY BE EXTREMELY RELUCTANT TO IMPOSE RESTRICTIONS ON AGRICULTURAL EXPORTS AND HAS MADE CLEAR THAT HE WOULD DO SO ONLY UNDER EXTREME CIRCUMSTANCES AND ONLY AS PART OF AN ACROSS-THE-BOARD EMBARGO. SECRETARY HAIG ASLO POINTED OUT RECENTLY THAT IN HIS VIEW, UNILATERAL GRAIN EMBARGOES ARE SELF-DEFEATING AND STERILE--A VIEW WHICH I SHARE.

IN THE CASE OF CHINA, NORMALIZATION OF POLITICAL RELATIONS IN 1979 OPENED THE WAY FOR A HUGE JUMP IN OUR AGRICULTURAL EXPORTS IN THAT MARKET. CHINA IS NOW THE LARGEST CUSTOMER FOR U.S. WHEAT. ALTHOUGH CHINESE DEMAND WILL NOT GROW AS RAPIDLY AS IT DID IN THE LAST FEW YEARS. I THINK CHINA WILL REMAIN AN IMPORTANT MARKET FOR US.

CONCLUSION

IN CONCLUSION I WANT TO RE-EMPHASIZE OUR FUNDAMENTAL COMMITMENT TO INCREASING OPPORTUNITES FOR U.S. AGRICULTURAL EXPORTS. OUR EFFORTS TO LIBERALIZE THE WORLD TRADING SYSTEM AND OUR MARKET DEVELOPMENT PROGRAMS BENEFIT NOT ONLY THE U.S. FARM SECTOR AND THE ENTIRE AMERICAN ECONOMY. I AM PERSONALLY COMMITTED TO A CLOSE WORKING RELATIONSHIP WITH THE U.S. AGRICULTURAL COMMUNITY TO BOOST OUR AGRICULTURAL EXPORTS.

I WOULD BE PLEASED TO RESPOND TO YOUR QUESTIONS.

THANK YOU.

CONGRESSIONAL TESTIMONY
OF
ACTING DEPUTY ASSISTANT SECRETARY FOR AFRICA, NEAR EAST AND SOUTH ASIA
JOSEPH F. DENNIN
before the
HOUSE AGRICULTURE COMMITTEE
MARCH 9, 1982

I wish to thank the Committee for the opportunity to testify before you today on the pressing question of increasing U.S. farm exports. The Commerce Department shares the Committee's concern with this issue. The need to expand exports of both agricultural and industrial products was the reason behind our organizing the recent Trade and Investment Mission (TIM) to Africa. Secretary Baldrige, together with Secretary Block, led the TIM to Ivory Coast, Nigeria, Cameroon, and Morocco. I was also a member of the Mission.

Senior executives from 25 U.S. corporations, representing five product sectors, comprised the private sector core of the Mission. Two of the five sectors are of interest to this Committee. Five participants represented agricultural commodities: American Soybean Association, Tidewater Grain, U.S. Wheat Associates, Louis Dreyfus, and the Rice Council of America. Four participants represented agribusiness equipment manufacturers and suppliers: Agro-Tech, Allis Chamlers, Mid-West Agricultural Trading, and Reed Steel Products.

The Mission sought to increase U.S. agricultural commodity sales to Africa through two avenues. First, we sought direct sales. U.S. firms already sell over $300 million of wheat, rice and corn to Nigeria. Smaller U.S. commodity markets exist in other African countries. The growing size of Africa's population and the long time required for crop development projects mean that Africa will need to increase its volume of food imports throughout this decade. U.S. farmers can supply this need. Second, new markets can be developed in Africa, and elsewhere, for both animal feeds and other agricultural food products by assisting the African countries to establish poultry raising and flour milling operations.

This less direct approach to commodity exports was very successful during the Trade and Investment Mission. While shipments at first will be small to such mills and feeding operations, the growth in the demand for the products produced - poultry and bread - will cause the soy, corn, and wheat sales from this country to expand steadily.

The Trade and Investment Mission demonstrated the effective cooperation that can be achieved between the U.S. private and public sectors. Attractive overseas markets were identified; appropriate participants were recruited; OPIC and EXIM representatives accompanied and supported the Mission with their respective programs; AID's new Private Enterprise Bureau offered new areas of assistance for the businessmen to consider.

We at Commerce feel strongly that U.S. business has traditionally been preoccupied with the developed markets of Europe, Canada, and Japan and has devoted relatively little attention to the rest of the world. While the past decade has seen American firms become more aware of the markets in the Pacific rim, Africa remains to many a largely neglected market.

The Trade and Investment Mission was the first executed by this Administration, and the first Cabinet-level mission by any Administration to Africa. Our objective was programming and contact for the private sector participants. We, the USG officials, were not there to gather all the limelight. We were there to support our private sector, to open doors for them to senior African government decision makers, to enable our businessmen to see first hand the marketing opportunities that these four countries offered to them.

In this objective I know that we succeeded. At each stop on the itinerary, the corporate executives got right down to business: contracts were signed, feasibility studies agreed to, bid deadlines were set, follow-up trip plans were made. We knew that people back here would be interested in what the businessmen accomplished. This was the reason we went. So we asked them and they told us, sometimes in great detail. The copies of Business America which I have for the Committee highlight those accomplishments for you.

The Mission participants, and we at the Department, knew that a significant portion of the Mission's accomplishemnts would only develop over time. Together, we agreed on a monitored follow-up period of 18 months, during which they would share with Commerce what they had achieved and could feel free to call upon us for additional individual company assistance. We will be having our first follow-up session on the 24th of this month and will continue our regular contacts with the companies through July of 1983. The Committee members are most welcome to come to the session on the 24th and hear from the companies directly.

In closing, I would like to say that I think the Trade and Investment Mission to Africa was an invaluable initiative to this country's efforts to expand our exports into less traditional markets. It clearly demonstrated that this country' s private sector is willing to venture into these challenging markets. I expect that Commerce and Agriculture will mount similar missions into other promising agricultural markets.

Africa Mission Members Report Accomplishments

UNITED STATES
Trade and
Investment
Mission to
AFRICA

Determined to build stronger trade and investment ties with Africa begun on the recent business-government mission there, the 25 business participants have organized a steering committee to chart and encourage future progress.

George S. Pan, President of Systems Architects, Inc., of Randolph, Mass., heads the six-member steering committee, which will work with the Commerce Department.

The Commerce Department will talk to each of the business participants every three months for the next 1½ years. "We will find out what progress is being made and what problems they are running into," Secretary of Commerce Malcolm Baldrige said. "Then we will talk to each of the embassies and follow up on how they and we can help this effort."

The mission, headed by Baldrige and Secretary of Agriculture John R. Block, went to Ivory Coast, Cameroon, Nigeria and Morocco Jan. 8-21. It was the Reagan Administration's first high-level mission of this type.

The U.S. companies found their best business prospects in agriculture, construction, transportation, communications, mining, hydroelectric dams, port development, liquefied natural gas projects, waste disposal, water purification, housing and telecommunications.

Secretary Baldrige assessed the mission, "We knew there would be considerable interest in the four countries in doing business with the United States, but we had no idea of how much interest there was."

"The U.S. companies literally signed contracts in every country whereas we had expected only preliminary negotiations. A lot of negotiations were started that look very promising. Overall, we awakened an interest in U.S. companies in doing more business in Africa. And I think we also have made Africa aware of that interest."

U.S. companies signed seven business agreements during the mission. These involved construction of a Hilton hotel in Abidjan, Ivory Coast; industrial plants in Ivory Coast; two major chicken poultry operations in Nigeria and Morocco; a hog farm in Nigeria; a rice pasta factory in Nigeria; and formation of an export-import partnership in Morocco.

Negotiations also are underway in the four countries for 10 to 14 other projects from $100 million down.

Secretary Block termed the mission "an enormous success for the United States—not just for agriculture but for agribusiness and other businessmen on the trip."

Dr. Francisco J. Hernandez, President of Agri Tech International, Inc., of Miami, said, "I went on the mission with mixed feelings. A small company doesn't get involved with big fish in government and also in business without thinking that perhaps it's not going to be as successful as you thought."

"The message I'd like to pass on to companies of my size is that there is a tremendous market in Africa for medium and small-sized companies," Hernandez said. "We should all try to be more aggressive and to get involved in international business."

"The second message is that it is possible for many companies and for private enterprise people to work with government," he continued. "This is something that I wasn't prepared to believe prior to this mission."

During the mission, a number of busi-

Business Members Comment

Here are a few comments by business participants in the Trade and Investment Mission to Africa:

- "We accomplished in 14 days what would have taken two years and $2,000,000 to do by my company"—Dr. Francisco J. Hernandez, President of Agro Tech International, Miami, Fla.
- "The mission was successful in giving us the 'who, where, what and when' in doing business in Africa"—George T. Lewis, Jr., Group Vice President of Charles T. Main International, Inc., of Bostón, Mass., a large consulting engineering firm.
- As a result of the mission, "my company is in much better position to put together the competitive financing package it needs to secure the contracts to provide technology and heat exchangers for a liquefied natural gas project in Cameroon"—James F. Dempsey, Vice President-International, Air Products and Chemicals, Inc., Allentown, Pa.
- "If no sales result, the fault clearly will be our own"—Paul Fayhee of Midwest Agricultural Trading Co., Bushnell, Ill.
- "The mission helped us make high level contacts that would have been difficult for us to achieve on our own"—Arthur P. Ismay, President of Gateway International Holdings, Inc., Washington, D.C.
- "We achieved more than we expected in the way of new business leads that could total well over $100 million. We are exploring the possibility of developing port and grain storage facilities as well as processing facilities, a feed mill and a poultry operation. I doubt we could have achieved such results on our own"—Samuel M. Harrell, Chairman and Chief Executive Officer of Tidewater Grain Co., an international grain merchandising corporation with offices in Indianapolis, Cincinnati and Philadelphia.
- "We foresee dramatic increases in the markets we explored. We are now alert to the need to help some of these countries overcome certain problems of storage, processing and utilization, so that the sales can be made by U.S. firms rather than by other countries"—Dr. Kenneth L. Bader, Chief Executive Officer of the American Soybean Association, based in St. Louis.

Best Available Copy

ness negotiations were completed or speeded up, because high-ranking U.S. officials were available to give advice on financing and other matters. These included William H. Draper, III, Chairman of the U.S. Export-Import Bank; Craig A. Nalen, President of the Overseas Private Investment Corporation (OPIC); Lionel H. Olmer, Under Secretary of Commerce for International Trade; and Elise du Pont, Assistant Administrator for Private Enterprise, Agency for International Development (A.I.D.).

Business deals also were expedited, because these officials met directly with high-ranking government officers in the four countries. Secretary Baldrige, for example, had private talks with Ivory Coast President Felix Houphouet-Boigny, Nigerian Vice President Alex Ekwueme, Cameroon President Ahmadou Ahidjo, and King Hassan II of Morocco.

However, the mission director—William H. Morris, Assistant Secretary of Commerce for Trade Development—emphasized that the mission was unique in focusing primarily on business and only secondarily on government. This approach, he said, conforms to President Reagan's commitment at the Cancun summit last October to help the developing countries achieve prosperity through economic freedom and individual incentive.

Morris reported upcoming Africa trade promotion activities this year: the Kaduna trade fair in Nigeria this month; an agribusiness trade mission to Nigeria, Ivory Coast and Cameroon in September; and an engineering and construction project management seminar in Cameroon, Botswana, Gabon and Nigeria in October.

Mission Business Accomplishments

Nigeria

- Proposal for high-yield cassava (100,000 tons per year on 12,000 acres) animal feed processing plant (estimated value $10-12 million).
- Signing of joint venture agreement for a breeder chicken farm to produce 50 million chicks ($4-5 million).
- Signing in two weeks of contract for $400,000 grain storage project.
- Invitation to Ministers from Ivory Coast and Nigeria to visit United States for tour of rice producing regions.
- OPIC President Nalen signed feasibility study financing agreement ($130,000) for potential investment of $22 million for a hog breeding farm.
- OPIC signed an agreement for pre-investment assistance ($10,000) to the Prince Co. It is exploring a possible rice-based pasta plant in Lagos for a potential $15 million investment.
- Active pursuit of bid for Bonny LNG project.
- Final stages of consideration for $100 million dam project.
- Negotiation of major joint venture for off-shore drilling rigs.
- Contract for weather radar system for Port Harcourt Airport ($6 million).

Cameroon

- Submission of bid for LNG process technology and heat exchangers.
- Feasibility study for integrated broiler operation producing three million day-old chicks per year (processing plant estimated to cost $4-5 million).
- Submission of proposal for $500,000 grain storage facility.
- Tentative agreement for partnership in housing and commercial construction with potential value of $7.5-10 million (depending on local construction costs).
- Land made available for two hotels and 40-bed medical center.
- Expect a joint venture for oil field servicing equipment.

Ivory Coast

- OPIC signed agreement providing financing for Hilton hotel in Abidjan.
- Verbal contract for several plants with industrial development group.
- Companying representative sent back to Abidjan to discuss oil pollution clean-up equipment.

Morocco

- Signing of feasibility contract ($75,000) for integrated poultry operation (OPIC-supported) for potential investment of $5 million.
- Partnership for export-import operation (rugs, brass, copper, ornamental woodworking) with profits reinvested in Morocco for housing construction.
- Feasibility study proposal for nationwide data communications utility.

Among the dignitaries mission leaders Baldrige and Block met during their travels in Africa was Ivory Coast President Felix Houphouet-Boigny. Talks with top government officials in all four countries visited helped facilitate business transactions.

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TESTIMONY BY
GOVERNOR CHARLES THONE, NEBRASKA
CHAIRMAN
COMMITTEE ON AGRICULTURE
NATIONAL GOVERNORS' ASSOCIATIION

Mr. Chairman, the topic of agricultural exports is of vital importance to the nation. It is obviously critical to the 2.5 million farm and ranch families that produce food and fiber in a manner that is the envy of the world. It is important to bankers, fertilizer manufactures, implement dealers, barge operators, and to other parts of the food system that comprises 28 percent of our gross national product (GNP). Indeed, agricultural exports are important to our balance of payments--we export more feed grains than any single item except jet aircraft--and hence to our economy. State governments have important investments in exports in that 30 states have offices overseas that help promote exports of this nation's food and fiber.

We are pleased that Secretary of Agriculture John Block has made the removal of trade barriers in the European Economic Community and Japan one of the highest priorities of the Department of Agriculture. We believe that the removal of barriers must occur if public investment at the state and federal level is to be maximized. We encourage the Secretary and other members of the Administration in this area.

This Committee along with its companion body in the Senate has been committed to expanding the market opportunities abroad for our agricultural community. Most recently, the Congress passed the Agriculture and Food Act of 1981, which contained a provision authorizing an export revolving fund. We testified before Congress seeking such an authorization, being firmly convinced that such a mechanism is essential to maintaining our competitiveness and developing new markets.

The rather tight fiscal posture of the federal government does not encourage us to believe that this mechanism will be financed in the near future. Nevertheless, we believe that we must explore a variety of means that will provide adequate resources to finance such an effort.

Another tool that needs to be explored is the Agricultural Trade Act of 1978 and the provision which establishes an intermediate credit program. Since this program was enacted, this authorization has been used only once.

Together, an intermediate credit program and an export revolving fund will provide us with some tools that will help us meet some of the most important challenges of the 1980s.

A second area of importance involves the export of processed agricultural commodities. Today, 65 percent of U.S. exports fall into the category of bulk commodities: feed grains, wheat, cotton, soybeans, leaf tobacco, etc. Currently these products must be further processed before direct consumption can occur. If these exports were processed in the United States, jobs would be created and more economic activity generated. Both states and the federal government have played critical roles in developing new markets and in financing export sales.

A recent U.S. Department of Agriculture study illustrates the potential economic benefits which could be realized if the United States exported more of its agricultural products in processed form. In 1980, the United States exported $6.4 billion of wheat to the world, but only $211 million of wheat flour. If even 10 percent of that amount of wheat were exported as flour, it could create up to $5.635 billion more business activity in this country, provide as many as 122,400 additional jobs, and increase personal income by as much as $1.217 billion.

Last year the United State exported $8.6 billion of feed grains. If an additional 10 percent of that amount were processed into wet milling products for export, it would generate as much as $7.645 billion additional business activity, create up to 163,400 more jobs and increase personal income by $1.695 billion. If only 10 percent of 1980 soybean exports of $5.9 billion were exported in processed form, business activity would increase by up to $1.646 biillion, creating up to 28,320 more jobs and increasing personal income by as much as $253.7 million. The same economic effects of greater value-added apply to other agricultural commodities now being exported primarily as raw material.

FEDERAL ROLE

The federal government plays an important role in the expansion of U.S. agricultural exports. The federal government invests considerable financial and human resources in market development, export finance and trade negotiations. By releasing its report concerning the multiplier effect of adding value to farm commodities prior to export, the U.S. Department of Agriculture has taken an important first step in opening a dialogue that will lead to full adoption of this concept. However, there are a number of items that the U.S. Department of Agriculture, working in conjunction with other federal agencies, should consider to increase the processed share of the export market. These include:

1. Increase the amount of value-added products in government-to government agreements;
2. Expand the amount of value-added products shipped under the Public Law 480 "Food for Peace" and commodity credit corporation credit programs;
3. Review foreign agricultural service export marketing programs to determine if sufficient attention is given to value-added products;
4. Obtain changes in foreign government trading policies

that limit U.S. exports of value-added products; and

5. Take effective measures to halt dumping and export subsidies in third country markets.

STATE ROLE

States also have a significant role to play in the area of increasing the share of value-added products. Their actions include:

1. Identify prospective firms that could benefit from such exports and work with such firms to effectively enter the world market for such products; and

2. Work with appropriate federal officials to facilitate export of such products. This can be achieved through trade expositions and through close coordination and cooperation between states and federal marketing officials abroad.

At this point, we are not prepared to comment on the need for legislation to achieve these objectives. Clearly, much work needs to be done to raise the level of public awareness of the importance of this approach. In the past, we have not allocated appropriate attention to the need to add as much value as possible to bulk commodities prior to export. Now, with our economy suffering from a myriad of problems, we should give this matter the priority it deserves.

Finally, Mr. Chairman, we would like to call your attention to the important matter of export trading companies. The National Governors' Association has had the enactment of legislation encouraging export trading companies as a high priority for two years. Recently, the NGA decided to develop a Governors' Conference on Agribusiness and Export Trading Companies. This Conference will be held here in Washington on April 15 to give public exposure to the success of our agricultural export program and the potential for the export trading company legislation to enhance this success. A second purpose is to bring together potential participants in a successful export trading company program to begin to plan for the development of the program, with the spirit of cooperation that has characterized our agricultural market development program.

Governors support this conference and the concept of trading companies because of their perception that the United States needs to make some adjustments if we as a nation are to meet the challenges of the world market in the 1980s. As far as agriculture is concerned, the ability to form trading companies will help hundreds if not thousands of small-to-medium sized firms enter the world market, developing economies of scale that will lead to increase demand for American food and fiber, strengthening our economy and reducing unemployment. Our conference is particularly timely because when the President's Export Council recently asked the Department of Agriculture to develop a prototype agribusiness trading company.

If the Department of Agriculture will provide the leadership in this area that it has provided the foreign market development program, the concept will become one of our most important agricultural export tools by the end of this decade.

Mr. Chairman, we have identified three ways to stimulate U.S. exports in the future. This list is not inclusive. We can assure you that we will try to be as constructive as possible in exploring virtually any approach that will strengthen our economy in this area.

Thank you for this opportunity to share these views.

TESTIMONY
OF
JULIAN B. HERON, JR.

IT IS A PLEASURE TO BE WITH THE COMMITTEE ON AGRICULTURE AS IT REVIEWS THE ISSUE OF TRADE BARRIERS ENCOUNTERED BY AGRICULTURAL EXPORTS. THIS IS A VERY IMPORTANT MATTER NOT ONLY TO OUR NATION'S ECONOMY, BUT ALSO TO CONSUMERS AND FARMERS ALIKE. AT THE CHAIRMAN'S INVITATION, THIS OPPORTUNITY IS BEING TAKEN TO DISCUSS THE MANNER IN WHICH VARIOUS BARRIERS TO TRADE AFFECT AGRICULTURAL EXPORTS. THE OPPORTUNITY IS ALSO BEING TAKEN TO MAKE A SPECIFIC RECOMMENDATION TO YOUR COMMITTEE.

BEFORE PROCEEDING, PLEASE LET ME TAKE THIS OPPORTUNITY TO THANK YOU ON BEHALF OF ALL AGRICULTURE FOR YOUR COMMITTEE'S INTEREST, DIRECT INVOLVEMENT AND SUPPORT OF AGRICULTURAL EXPORTS. FOREIGN TRADE IS ESPECIALLY IMPORTANT TO THIS NATION'S ECONOMY. ALL OF AGRICULTURE JOINS IN ENCOURAGING YOUR COMMITTEE AND CONGRESS TO CONTINUE ITS CLOSE ATTENTION TO INTERNATIONAL TRADE.

IN ORDER TO DISCUSS TRADE BARRIERS TO AGRICULTURAL EXPORTS, IT IS FIRST NECESSARY TO GIVE ATTENTION TO THE MANNER IN WHICH SUCH BARRIERS ARE DISCOVERED. NORMALLY, IT IS THE PRIVATE SECTOR WHICH FIRST ENCOUNTERS AND LEARNS THE DETAILS OF EXISTING BARRIERS THROUGH THE NORMAL CONDUCT OF COMMERCE. IN TURN, OUR GOVERNMENT NORMALLY LEARNS OF TRADE BARRIERS, BOTH

LARGE AND SMALL, FROM THE PRIVATE SECTOR. THIS PROCESS OF DISCOVERY IS APPROPRIATE. IF THERE IS INSUFFICIENT COMMERCIAL INTEREST TO IDENTIFY A PARTICULAR TRADE BARRIER, THEN THERE IS LITTLE POINT IN OUR GOVERNMENT PURSUING IT. ON THE OTHER HAND, WHEN A COMMERCIAL INTEREST DISCOVERS A TRADE BARRIER AND IDENTIFIES IT FOR OUR GOVERNMENT, EVERY EFFORT SHOULD BE MADE TO REMOVE SUCH BARRIER.

IN DISCUSSING TRADE BARRIERS, TWO IMMEDIATE SOURCES COME TO MIND. THE FIRST ARE THE QUOTAS MAINTAINED BY JAPAN AGAINST AGRICULTURAL COMMODITIES. THE SECOND IS THE GROWING NUMBER OF SECTION 301 CASES THAT ARE PENDING. EACH WILL BE DISCUSSED.

WHILE JAPAN RETAINS A NUMBER OF QUOTAS, THE TWO MOST COMMONLY DISCUSSED RELATE TO BEEF AND ORANGES. ALTHOUGH THE JAPANESE DEMAND FOR BOTH OF THESE ITEMS IS HIGH, THE JAPANESE GOVERNMENT PROHIBITS THEIR IMPORTATION ABOVE SPECIFIED LEVELS. THESE TWO TRADE BARRIERS HURT NOT ONLY THE U.S. ECONOMY BY RESTRICTING OUR EXPORTS, BUT ALSO HURT THE JAPANESE POPULATION BY RESTRICTING THE SUPPLY OF A DESIRED COMMODITY.

IN RECENT MONTHS, A GREAT DEAL OF ATTENTION HAS BEEN FOCUSED ON JAPANESE EXPORTS TO THE UNITED STATES. AT SOME

POINT, THE UNITED STATES WILL BE REQUIRED TO DEMONSTRATE THAT IT WILL NO LONGER TOLERATE THE MAINTENANCE OF QUOTAS BY JAPAN. THAT TIME IS NEAR AT HAND. YOUR COMMITTEE'S INTEREST IN THE REMOVAL OF THESE TWO QUOTAS IS MUCH APPRECIATED.

A SECOND SOURCE FOR LOCATING BARRIERS TO AGRICULTURAL TRADE ARE THE SECTION 301 CASES. THESE ARE CASES BROUGHT BY THE PRIVATE SECTOR AGAINST SPECIFIC BARRIERS TO TRADE. THE TWO OLDEST 301 CASES INVOLVE CITRUS AND WHEAT FLOUR. NEWER CASES COVER DIVERSE PRODUCTS, SUCH AS CANNED PEACHES AND PEARS, RAISINS, POULTRY AND PASTA.

THE INTERESTING POINT IS THAT ALL OF THESE NAMED CASES HAVE BEEN BROUGHT AGAINST PRACTICES MAINTAINED BY THE EUROPEAN ECONOMIC COMMUNITY. MOST INVOLVE SUBSIDIES IN ONE FORM OR ANOTHER. THESE CASES GROW OUT OF THE EUROPEAN ECONOMIC COMMUNITY'S DETERMINATION TO MOVE FROM A COMMON AGRICULTURAL POLICY TO A COMMON EXPORT POLICY. WHILE THE FIRST POLICY CAUSED NUMEROUS PROBLEMS FOR MANY AGRICULTURAL COMMODITIES, SUCH AS FEED GRAINS, THE SECOND POLICY CAN BE EXPECTED TO CAUSE DIFFICULTY FOR ALL U.S. EXPORTS. THERE ARE UNLIKELY TO BE MANY, IF ANY, EXCEPTIONS. THIS IS A MATTER WHICH THIS COMMITTEE WILL WISH TO CONSIDER IN GREATER DEPTH AS THE EEC CONTINUES TO IMPLEMENT ITS COMMON EXPORT POLICY. THE

AGRICULTURAL COMMUNITY APPRECIATES THIS COMMITTEE'S INTEREST AND ATTENTION TO DATE.

IN LOOKING TO THESE SECTION 301 CASES, THERE IS ONE POINT THAT THIS COMMITTEE SHOULD BE PARTICULARLY ALERT TO IN DISCUSSIONS WITH FOREIGN REPRESENTATIVES. THAT IS THE ISSUE OF WHETHER OR NOT IT IS NECESSARY TO ESTABLISH DAMAGES IN A SECTION 301 OR GATT CASE. FOREIGN REPRESENTATIVES WILL ALWAYS ARGUE THAT IT IS NECESSARY TO ESTABLISH DAMAGE IN ORDER FOR THE UNITED STATES TO PREVAIL. HOWEVER, IF WE EXPECT GATT RULES TO BE HONORED, A VIOLATION OF GATT MUST BE SUFFICIENT IN AND OF ITSELF TO PROVIDE RELIEF. IF THE UNITED STATES OR OUR TRADING PARTNERS DO NOT INTEND FOR GATT RULES TO BE RESPECTED, THEN THE CONGRESS SHOULD BE INFORMED SO THAT IT CAN ESTABLISH ITS OWN RULES FOR THE UNITED STATES. FURTHER, IF EVIDENCE OF DAMAGE IS A PREREQUISITE FOR PREVAILING IN EXPORT ORIENTED CASES, THEN THE GATT IS NOTHING MORE THAN A PROBATE COURT FOR ADMINISTERING THE ESTATES OF DEAD INDUSTRIES.

IN THE CASE OF AGRICULTURE, THE THREAT OF INJURY ALONE IS OF EXTREME IMPORTANCE BECAUSE OF THE NATURE OF THE PRODUCTS INVOLVED. IF THE UNITED STATES IS NOT PREPARED TO DEFEND ITS EXPORT INTERESTS PROMPTLY AND EFFECTIVELY, THEN NONE OF THE RULES HAS ANY MEANING. IN THE CASE OF AGRICULTURE, INJURY IS

RARELY ESTABLISHED BY HISTORICAL STATISTICS. THE INJURY IS NORMALLY PROSPECTIVE AND MUST BE DEALT WITH AS SUCH. THIS COMMITTEE CAN ASSIST THE AGRICULTURAL COMMUNITY SUBSTANTIALLY BY URGING U.S. OFFICIALS TO CHAMPION THE VIEW THAT A VIOLATION OF A GATT RULE IS SUFFICIENT TO PREVAIL.

WHILE BEFORE THIS COMMITTEE, THE OPPORTUNITY IS BEING TAKEN TO MAKE A SPECIFIC RECOMMENDATION WITH RESPECT TO AGRICULTURAL TRADE. WHILE DIRECTED TO AGRICULTURAL TRADE, IT WILL BENEFIT ALL UNITED STATES EXPORTS.

SIMPLY PUT, THE RECOMMENDATION IS THAT A NATIONAL EXPORT POLICY BE DEVELOPED. IN RECOMMENDING SUCH A POLICY, FIVE SPECIFIC POINTS MUST BE EMPHASIZED:

(1) IT DESERVES THE SAME ATTENTION GIVEN TO FOREIGN POLICY;
(2) IT SHOULD BE PURSUED AS A GOVERNMENT-WIDE OBJECTIVE;
(3) IT SHOULD ACHIEVE BOTH BROAD OBJECTIVES AND SPECIFIC OBJECTIVES;
(4) IT SHOULD SEEK TO MAXIMIZE EXPORTS FROM THE UNITED STATES; AND
(5) IT SHOULD BE CONSISTENT WITH INTERNATIONAL RULES OF TRADE.

A DISCUSSION OF TRADE POLICY OFTEN GOES DIRECTLY TO SPECIFIC ISSUES OR COMPLAINTS WITHOUT STOPPING TO DISCUSS THE NEED TO DEVELOP A SOUND EXPORT POLICY. WE CAN READILY AGREE THAT TRADE POLICY, IN ITS SIMPLEST FORM, IS SUMMARIZED BY THE PHILOSOPHY THAT WE SHOULD EXPORT AS MUCH AS POSSIBLE AND IMPORT AS LITTLE AS POSSIBLE. UNFORTUNATELY, LIKE MANY SIMPLE THINGS, IT IS NOT THAT EASY.

ONE OF THE REASONS THAT THE UNITED STATES FINDS ITSELF IN ITS CURRENT POSITION IS THAT WE HAVE NOT HAD A NATIONAL EXPORT POLICY. FOR A NUMBER OF YEARS, THE DEPARTMENT OF AGRICULTURE HAS STRESSED THE IMPORTANCE OF AGRICULTURAL EXPORTS. IN MORE RECENT YEARS, OTHER AGENCIES HAVE ACKNOWLEDGED THE IMPORTANCE OF AGRICULTURAL EXPORTS. YET, THERE HAS NEVER BEEN A COHESIVE UNITED STATES EXPORT POLICY WHICH BRINGS TOGETHER THE FULL RESOURCES AVAILABLE TO OUR GOVERNMENT TO SEE THAT AGRICULTURAL PRODUCTS ARE EXPORTED. THE SAME IS TRUE ON THE INDUSTRIAL SIDE.

HISTORICALLY, TRADE POLICY HAS BEEN SUBSERVIENT TO FOREIGN POLICY CONSIDERATIONS. BECAUSE OF THIS, ATTENTION HAS BEEN FOCUSED ON TRADE POLICY WITH VERY LITTLE ATTENTION GIVEN TO EXPORT POLICY. IT MUST BE RECOGNIZED THAT THE FORMULATION OF AN EXPORT POLICY IS A NATIONAL OBJECTIVE EQUAL IN IMPORTANCE

TO THE FORMULATION OF A FOREIGN POLICY. HISTORICALLY, WE HAVE CONFUSED TRADE POLICY, EXPORT POLICY AND FOREIGN POLICY.

THE ADVERSE CONSEQUENCES OF SACRIFICING LONG-TERM EXPORT ADVANTAGES FOR SHORT-TERM BENEFITS CAN READILY BE SEEN FROM THE GRAIN EMBARGOES IN THE 70'S. VIRTUALLY ALL NOW AGREE THAT THE EMBARGOES IMPOSED WERE DETRIMENTAL TO OUR LONG-TERM NATIONAL ECONOMIC INTEREST. IT PROVIDED ARTIFICIAL STIMULATION TO OUR COMPETITORS TO INCREASE PRODUCTION. EVEN WORSE, IT GAVE OUR COMPETITORS THE ABILITY TO WHISPER IN THE EARS OF OUR CUSTOMERS THAT IT IS NO LONGER POSSIBLE TO KNOW WHEN THE UNITED STATES MIGHT TERMINATE ITS COMMITMENTS. HAD THERE BEEN A NATIONAL EXPORT POLICY, THIS ACTION MIGHT NOT HAVE OCCURRED.

IF THE EFFORT IS MADE TO DEVELOP A NATIONAL EXPORT POLICY, THEN IT MUST BE PURSUED THROUGHOUT GOVERNMENT. FOR YEARS, THE DEPARTMENT OF AGRICULTURE HAS HAD A SOUND UNDERSTANDING OF THE IMPORTANCE OF AGRICULTURAL EXPORTS. THIS IS PERHAPS BEST REFLECTED IN THE FOREIGN MARKET DEVELOPMENT PROGRAM WHICH IS A SHINING EXAMPLE OF THE PUBLIC AND PRIVATE SECTOR WORKING TOGETHER FOR THE COMMON GOOD. HOWEVER, THE RECOGNITION OF THE IMPORTANCE TO THE NATION OF AGRICULTURAL EXPORTS BY THE DEPARTMENT OF AGRICULTURE IS NOT ENOUGH. OTHER AGENCIES AND THE PRESIDENT MUST ACCEPT AND SUPPORT THIS PREMISE.

In the past year, some progress has been made. The United States has been able to develop, on a government-wide basis, a sound approach to the damage being caused by the European Economic Community's agricultural export subsides. These subsidies affect many crops in many different ways. The common thread is the damage flowing from excessive subsidies granted by the European Economic Community. In response, the Departments of Agriculture, State and the United States Trade Representative took the lead in developing a common strategy to oppose this practice. Eventually, the strategy was adopted by the Cabinet.

All agencies of the government are now proceeding in a manner consistent with the Cabinet's strategy. This was perhaps best seen at the December 1981 meeting in Brussels where it was planned to have the Secretaries of State, Commerce, Agriculture and the U.S. Trade Representative present to discuss trade issues with the European Economic Community. That meeting was unprecedented. Increased cooperation of this type needs to take place in order to develop an overall United States trade policy.

Our government must be diligent in its effort to maintain a unified approach. Congress and the private sector

WILL HAVE TO DEMAND SUCH DILIGENCE. WE MUST NOT RETURN TO THE TIME WHEN, IN DEALING WITH AGRICULTURAL TRADE ISSUES, DEFENSE REFERRED TO ITS BASES, STATE TO OVERRIDING POLITICAL CONSIDERATIONS AND COMMERCE TO INDUSTRIAL ISSUES. WE MUST ALL WORK TOGETHER IN A UNIFIED EFFORT TO SUPPORT A NATIONAL EXPORT POLICY.

WITHOUT A NATIONAL EXPORT POLICY, IT WILL NOT BE POSSIBLE TO ACHIEVE BOTH BROAD RANGE AND SPECIFIC OBJECTIVES. THE EFFORT MADE WITH RESPECT TO THE EUROPEAN ECONOMIC COMMUNITY'S AGRICULTURAL SUBSIDY PRACTICES REPRESENTS A SPECIFIC OBJECTIVE. IT IS A GOOD START, BUT ONLY A START. WE NEED TO HAVE STRATEGIES DEVELOPED WITH RESPECT TO JAPAN, MEXICO, ARGENTINA AND BRAZIL, TO NAME JUST A FEW. ADDITIONALLY, THERE MUST BE AN OVERALL UNITED STATES EXPORT POLICY DEVELOPED.

IT WILL BE FAR EASIER TO OBTAIN AND IMPLEMENT SPECIFIC OBJECTIVES ON A UNIFIED BASIS IF THEY FIT INTO A LARGER NATIONAL PLAN. THE UNITED STATES HAS NEVER HAD A NATIONAL EXPORT POLICY. WE SHOULD MOVE NOW TO ADOPT ONE.

IF A NATIONAL EXPORT POLICY IS ADOPTED, IT IS CERTAIN TO CONTAIN AS ONE OF ITS OBJECTIVES THE NEED TO MAXIMIZE EXPORTS FROM THE UNITED STATES. IN ORDER TO ACCOMPLISH THIS, MUCH WORK WILL HAVE TO BE DONE.

There is a tendency on the part of virtually every government agency, with the exception of the Department of Agriculture, to look only at the large volume and high value export items. It is understandable that big dollar items would receive immediate attention. They should. However, the United States needs to export its goods to every customer that can be found throughout the world. Many of these sales will be for small amounts of goods that are not bulk commodities. By themselves, each sale will be unimportant. Collectively, the entire group of sales can help return this nation's economy to a healthy state. The barriers faced in countries such as the Republic of China, Brazil, Korea and Mexico are together as important economically as the barriers maintained by our major trading partners. No one can justify the citrus or beef quotas maintained by Japan. These are world famous. The same is also true of Korea's licensing system which is less known and understood.

An example might serve well. We tend to think of India as a nation of starving people. Yet 10% of its population equals approximately 60,000,000 people. The top 10% of the individuals living in India are wealthy and can afford items not otherwise available to the general population. Sixty million people represent a market the size of West Germany.

ALMONDS, WHILE OFTEN RANKING AS OUR NUMBER ONE AGRICULTURAL EXPORT AS A PERCENTAGE OF PRODUCTION, ARE NOT GENERALLY CONSIDERED A MAJOR AGRICULTURAL COMMODITY. THERE WAS LITTLE INTEREST OUTSIDE THE DEPARTMENT OF AGRICULTURE INITIALLY IN REMOVING THE 200% AD VALOREM IMPORT DUTY ON ALMONDS OR IN ATTEMPTING TO OBTAIN BETTER LICENSING RULES FOR IMPORTS. EVENTUALLY, THE DUTY WAS SLASHED IN HALF AND THE LICENSING RESTRICTIONS LIFTED. WITH ONLY A 100% AD VALOREM DUTY IN PLACE, THE UNITED STATES ALMOND INDUSTRY WAS ABLE TO SEND EXPORTS TO INDIA APPROACHING $5,000,000. WHILE THIS AMOUNT IS SMALL IN THE OVERALL TRADE PICTURE, IT DOES NOT REQUIRE TOO MANY SALES OF THIS MAGNITUDE IN TOO MANY DIFFERENT MARKETS TO BECOME IMPORTANT.

THIS EXAMPLE ILLUSTRATES THE NEED FOR THE UNITED STATES GOVERNMENT TO ASSIST EXPORTERS IN REMOVING BARRIERS TO EXPORTS IN WHATEVER COUNTRY THE EXPORTER HAS DETERMINED A MARKET EXISTS.

IF WE CAN AGREE ON THE IMPORTANCE OF DEVELOPING A POLICY ALONG THE LINES DISCUSSED, THEN IT IS ALSO NECESSARY THAT THE POLICY BE CONSISTENT WITH ESTABLISHED INTERNATIONAL TRADING RULES. FAR TOO OFTEN THERE IS A WILLINGNESS ON THE PART OF DIPLOMATS TO COMPROMISE AND DEPART FROM THE ESTABLISHED

INTERNATIONAL RULES OF TRADE IN ORDER TO RESOLVE A PARTICULAR DISPUTE. WHILE THIS SEEMS, AT FIRST GLANCE, TO BE REASONABLE, PRACTICAL AND EFFECTIVE, IT IS NOT. THE ESTABLISHED INTERNATIONAL RULES OF TRADE WERE DEVELOPED AFTER LONG YEARS OF NEGOTIATION AND EFFORT. ALTHOUGH THESE RULES ARE NOT PERFECT, THEY ARE BASED ON SOUND ECONOMIC THEORIES AND POLITICAL REALITIES. WHEN THE UNITED STATES EITHER WILLINGLY DEPARTS FROM THOSE RULES OR ALLOWS OTHERS TO DO SO, IT CREATES AN ATMOSPHERE THAT MAKES INTERNATIONAL TRADE MORE DIFFICULT. IN THE FIRST INSTANCE, IT IS ALWAYS EXTREMELY DIFFICULT TO MAINTAIN THE ESTABLISHED RULE. IN THE LONG RUN, IT IS ALWAYS TO THE ADVANTAGE OF THE UNITED STATES TO DO SO.

WE TEND TO THINK OF RETALIATION AS A DIRTY WORD. PERHAPS IT IS. WHAT IS IMPORTANT IS THAT THE UNITED STATES MUST ASSUME THE LEADERSHIP IN MAKING THE ESTABLISHED RULES OF TRADE WORK. AT PRESENT, WE PREACH THE NECESSITY OF FOLLOWING THE RULES. UNFORTUNATELY, HISTORICALLY WE PERSUADED THE WORLD THAT WE WILL DO NOTHING IF OUR TRADING PARTNERS DO NOT OBSERVE THE RULES. WE HAVE EXERCISED OUR LEADERSHIP IN SUCH A MANNER AS TO CONVINCE OUR TRADING PARTNERS THAT THERE IS NO LIABILITY IN OPERATING OUTSIDE ESTABLISHED WORLD TRADE RULES.

THE RESULT CAN BE SEEN IN MANY OF THE CURRENT BILLS PENDING IN CONGRESS CALLING FOR RECIPROCITY. CONGRESS IS SAYING CLEARLY THAT IF THE EXECUTIVE BRANCH CANNOT ENFORCE TRADE RULES, IT WILL. RECIPROCITY MEANS REMOVING QUOTAS TO A CATTLE RANCHER. IT MEANS ERECTING IMPORT BARRIERS TO AN UNEMPLOYED CITIZEN OF DETROIT. IT MEANS SOMETHING ELSE TO A BANKER. IN SHORT, IT HAS NO MEANING.

THE ESTABLISHED RULES OF TRADE WILL WORK IF FOLLOWED. A PRICE MUST BE ATTACHED TO TRADE PRACTICES BY A COUNTRY THAT ARE CONTRARY TO THE ESTABLISHED RULES. THIS IS A NATION OF LAWS. CERTAIN PENALTIES APPLY FOR FAILURE TO OBSERVE SPECIFIC LAWS. THE SAME CAN BE TRUE FOR WORLD TRADE. TO ACCOMPLISH THIS, THE UNITED STATES WILL HAVE TO ESTABLISH ITS LEADERSHIP.

IF A COUNTRY OBJECTS TO A PENALTY IMPOSED AS A RESULT OF FAILURE TO OBSERVE ESTABLISHED RULES, THE PENALTY CAN BE REMOVED UPON A CHANGE IN THAT COUNTRY'S PRACTICE. WE IN THE UNITED STATES WILL HAVE TO BE WILLING TO ACCEPT SIMILAR CONSEQUENCES FOR OUR ACTIONS. THIS NEED NOT LEAD TO A TRADE WAR. ON THE OTHER HAND, FAILURE TO IMPOSE DISCIPLINE IN INTERNATIONAL TRADE MAY. AS EXPORTERS, WE HAVE AN OBLIGATION TO SEE THAT A WORKABLE SYSTEM IS DEVELOPED, IMPLEMENTED AND ENFORCED.

IT IS HOPED THAT THESE THOUGHTS, SUGGESTIONS AND RECOMMENDATION WILL BE OF BENEFIT TO YOUR COMMITTEE. I WOULD BE VERY PLEASED, MR. CHAIRMAN, TO RESPOND TO ANY QUESTIONS THAT YOU OR THE COMMITTEE MAY HAVE. THANK YOU VERY MUCH FOR PROVIDING ME WITH THE TIME TO SHARE THESE THOUGHTS.

STATEMENT OF
UNITED STATES MEAT EXPORT FEDERATION*
BEFORE THE
DEPARTMENT OPERATIONS, RESEARCH & FOREIGN AGRICULTURE SUBCOMMITTEE
OF THE HOUSE AGRICULTURE COMMITTEE
Washington, D.C.

This opportunity to express the views of our organization on the very important subject of meat exports is welcome and appreciated.

My testimony will address itself primarily to three areas:

1. Meat export opportunities.
2. Problems associated with this export potential.

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* The Federation, Alan R. Middaugh, President, is a Cooperator with the Foreign Agricultural Service of the USDA in foreign market development of meat and meat products derived from beef, pork and lamb.

3. The desire for dependable, guaranteed access to foreign markets.

Geographical areas of opportunity have been identified over the past several years in both Japan and the European Community (EC). The dollar value of U.S. beef exports rose from $194 million in 1978, to $242 million in 1979, to $249 million in 1980. It can be expected that this total will reach at least $275 million in 1981. In 1980, approximately $3 billion in meat and meat products were exported, matching the total import value of meat products. Exports of cattle hides, inedible tallow and greases, furskins and variety meats (livers, tongues, kidneys, etc.) make up the largest share of this $3 billion total.

The problems and restrictions associated with the exports of the meat by-products mentioned above have been relatively minor in recent years. Although the export of tongues, livers, hearts and other variety meats are placed in jeopardy with relatively recent actions taken by the EC, our major export frustrations center around the movement of U.S. high quality beef overseas.

Significant effort and funding by producers and packers, supported by the United States Department of Agriculture/Foreign Agricultural Service Cooperator Program have been devoted to the recognition of product demand overseas and to the adoption of foreign consumer needs by exporting interests in the U.S. As foreign governments have become cognizant of America's thrust toward an export identity, the erection of trade barriers has become commonplace.

Although the door was opened to beef markets in Japan and the EC as a result of recent multilateral trade negotiations, each particular geographical sector continues to effectively limit U.S. export opportunities.

Although Japan has basically lived up to its obligations to buy beef in accordance with earlier trade agreements, the Japanese government tightly regulates the importation of beef through its Livestock Industry Promotion Corporation (LIPC). Along with agreeing to specific tonnages of high quality beef on a global basis, the GOJ expressed the willingness to aid in the expansion of demand and consumption. However, the Japanese price stabilization policy - which translates to artificially high prices to consumers for imported as well as domestic beef - along with non-tariff trade barriers such as a limited number of approved packing plants, rigid certification requirements, yield grading and complex pricing mechanisms effectively limit beef imports. The LIPC buying system uses imported meat strictly in order to regulate domestic supply and demand and to subsidize relatively inefficient Japanese livestock producers. Recent studies show that a $3.75/lb. C.I.F. beef price becomes $13.07 with the application of duties, import expenses, surcharges and LIPC costs. The GOJ then complains that U.S. beef is too high priced while at the same time Japanese consumers wait in line for limited supplies of American high quality beef made available through trade shows and product demonstrations.

It is not fair to assume that with Japanese finished products entering the U.S. on a virtually free market basis, American agriculture should enjoy this same degree of market access for meat products, particularly when the benefit comes to Japanese consumers as well as U.S. producers.

U.S. meat packers enjoyed in excess of $150 million worth of sales of variety meats to EC member countries in 1980. Trade negotiations completed in 1979 paved the way for the U.S. to export up to 10,000 metric tons of high quality beef (valued at $100 million) to the EC on an annual basis. With this bilateral agreement came the immediate barrage of non-tariff trade barriers set in place by the Commission in Brussels.

U.S. beef entering the E.C. is subject to a 20% duty based on the C.I.F. price. Assuming U.S. beef exported to the U.K. had a value of $3.50/lb. with freight and insurance costs of about 25¢/lb., a 20% duty would be applied against a value of $3.75/lb. The current monetary compensatory amount (MCA) designed to equalize currency fluctuations between Community states is currently 11-12 pence per pound for U.S. beef shipped to England. Therefore, the cost of exporting U.S. beef to the U.K. on a $3.50 item amounts to $1.00/lb. As a point of comparison, the duty for EC beef entering the U.S. is 2¢/lb. To compound this inequity, EC beef shipped to the U.S. is subsidized at the rate of 58¢/lb.

Differences between the EC meat inspection requirements as determined by the Third Country Meat Directive (72/462/EEC) continue to provide a very effective technical shelter for the Community. The USDA packing plant inspection system is at least as good, if not superior to, the EC system for producing sanitary and wholesome meat for human consumption. The Directive establishes health and sanitary requirements for packing plants wishing to export to the EC in significant variance to U.S. inspection procedures. The U.S. meat industry believes that many of these variances are unreasonable and represent arbitrary and unnecessary non-tariff trade barriers.

Along with problems associated with health and sanitary regulations came the EC Ministers' announcement of the proposed import ban on all meat derived from cattle receiving growth hormones. Although this notification began to emerge in October of 1980, the intracommunity debate has continued up to the present with lack of any definite imposition or discard. The negative impact of such a ban has been tremendous, both with regard to variety meat exports and the high quality beef trade, and continued threats of drastic action have caused additional disruption among importers and exporters alike.

The trend toward increasing government intervention in international meat trade is continuing. As such intervention proceeds, market forces are becoming progressively more constrained. Severely restricting world meat trade is the practice of governments encouraging domestic production with price support schemes thus causing a tremendous tonnage buildup of reserve stocks which are being placed on the international market at highly subsidized prices ($1,500 per ton). As recently as 1978, the EC was a net importer of beef. In 1980, the EC exported over 500,000 tons (carcass weight) of beef making it the second largest beef exporter in the world behind Australia. This subsidy of 68¢/lb. has placed the EC at a definite price advantage when exporting to Russia, Egypt and North Africa - markets traditionally supplied by Australia and Argentina. The EC's use of extensive export restitutions or refunds has resulted in increased activity on the part of Australia to enlarge beef exports to Pacific rim nations at the expense of U.S. beef sales.

Given the opportunities and problems associated with world meat trade, it appears in the best interest of all concerned to look at some form of guaranteed market access as a well-defined principle of international trade in meat.

Responsible world leadership on the part of major trading countries and blocs of countries requires that they relax beef trade restrictions. If the U.S. would assume the same action as the other major world markets and reduce its imports, substantial damage to the beef industries in the major exporting countries would unquestionably result. Competing with foreign treasuries for available overseas markets is totally unpalatable, particularly when the U.S. shares its market with other beef producing countries. The U.S. beef industry should not be required to absorb the instability caused by restrictions of other major countries or trading blocs.

The major objective of such a principle must be to provide reciprocal access at a level determined by a percentage of domestic beef production and/or consumption during a given period of time. Each country - or bloc in the case of the European Community - would guarantee international access based upon a formula mutually initiated on a bilateral basis and consistent with the U.S. voluntary restraint agreements. Major exporting nations must be prepared to extend the same access opportunities to their own domestic markets as requested elsewhere. The U.S. must be prepared to provide guarantees of access in addition to those prevailing when Western Europe and Japan have granted guaranteed access to beef without significant tariff or non-tariff barriers.

In conclusion, "market access" must be the predominant attitude of all meat trading nations or blocs of nations rather than the continued limitations provided by quantitative restrictions, tariffs, levies, protectionist attitudes, or the inconsistencies of sanitary regulations and documentation. This concept is fully consistent with the cyclical-historical patterns of trade, income and consumption capabilities as well as desirable nutritional objectives. The continued success of our domestic meat industry is contingent upon our dedication toward fair, reasonable reciprocity in world meat trade.

VENEZUELA

Marketing pork meat products in Venezuela is not an easy task due to the many import requirements applied by the Government of Venezuela. The majority of the requirements can be considered routine and generally are acceptable. However, one of the requirements which is imposed by the Agricultural Marketing Corporation (CMA) actually falls under the category of trade restrictions. Specifically, this is the import licensing requirement.

After a product has been approved, registered, met all health and sanitary requirements and a series of other authorizations, an import license must be granted. The responsibility for determining whether or not an import license will be issued is vested in the Venezuelan Ministry of Development and Ministry of Agriculture. Long delays and confusion are common in the process of license approval. Exporters often lose interest in the market due to lengthy review periods on license applications and frequent inability to obtain license approval.

When food items are in short supply duties often are reduced or exonerated. Unfortunately, this does not mean the import license requirement will be waived. Usually licenses or permits remain in force and provide a continuing means of controlling imports. In 1980, the Venezuelan market experienced a severe shortage of pork despite the plea by importers and processors to allow increased tonnages into the market. The shortage lingers on this year and will most likely reach severe proportions once again at the expense of Venezuelan consumers.

JAPAN

The General Agreement on Tariffs & Trade (GATT) limits the use of export subsidies on agricultural products. Countries adhering to this code agreed not to use domestic subsidies in a manner that would injure the interests of its trading partners.

Nevertheless, the Livestock Industry Promotion Corporation (LIPC), a Japanese quasi-governmental type of organization, can be considered the subsidy agent of the Ministry of Agriculture, Forestry & Fisheries (MAFF). The LIPC has effectively created a subsidy program for the domestic beef, pork and dairy industries through its "Law on Stabilization of Livestock Product Prices" program.

Under the "Stabilization Price Zone" scheme, the LIPC administers floor and ceiling prices for various livestock products, which are established annually by the MAFF. Although there appears to be no clear formula for setting these levels, the pork prices are based on at least three factors: (1) hog production costs (2) market prices over recent months (3) the outlook for compound feed prices. (This is an assumption since the Government of Japan (GOJ) will not reveal their actual criteria for establishing floor and ceiling prices.).

Prior to the GATT negotiations, Japan's duty rate of pork imports was 10%. Under the multilateral agreements, the rate was to be reduced to 8.7% in 1980, and another 0.6% each year until the duty reached 5% in 1986. The duty, however, is only part of the "gate price system" under the "Japan Customs Tariff Law-Article 12".

Article 12 states that when domestic pork wholesale prices exceed, or are expected to exceed the ceiling price, or when the total imported pork price (CIF value + duty + other expenses) is greater than the domestic wholesale price, the GOJ is permitted to execute, reduce or waive duty action for a fixed period.

To be more specific, the Minister of Finance establishes a "trigger price" for each individual meat cut, which is said to include the ceiling price, importing expenses, quality differentials, wholesaler prices, etc. If the price of the imported pork (CIF value + duty) exceeds this temporary trigger point, a part of the import duty is reduced or waived. The last action in this regard was in 1976. Since that time duties have been applied. Since this "gate price" or "trigger price" system controls the flow of pork items, U.S. exporters see it as a non-tariff trade barrier. Nevertheless, the GOJ considers it part of its price stabilization system. This price control and import control system protects domestic production. Theoretically, it can be considered a subsidy program that actually limits pork imports and does not allow consumers to enjoy less expensive products.

During 1979, the U.S. moved to alter its own policies on subsidies and countervailing duties under the Trade Agreement Act of 1979. Japan, however, has made no move to alter its subsidy programs.

Included as appendixes to this statement are (1) a copy of an address by Dr. Kunio Komori at the Colorado Cattle Feeders Association's American Cattle Conference, (2) a statement from William D. Hughes, President, King Meat Packing Co. and (3) a statement by Ron Davis, Executive Vice President, Colonial Beef Company.

ADDRESS BY DR. KUNIO KOMORI AT
COLORADO CATTLE FEEDERS ASSOCIATION'S
AMERICAN CATTLE CONFERENCE

JANUARY 16, 1982
DENVER, CO. U.S.A.

THANK YOU, MR. CHAIRMAN. MY NAME IS DR. KUNIO KOMORI, THE CHIEF NORTH AMERICAN REPRESENTATIVE OF LIPC DENVER OFFICE. I AM SO PLEASED TO MEET YOU AND HAVE AN OPPORTUNITY TO EXPLAIN ABOUT THE JAPANESE VIEWPOINT ON BEEF TRADE BETWEEN U.S.A. AND JAPAN.

BRIEF EXPLANATION ABOUT LIPC.

AT FIRST, PLEASE LET ME BRIEFLY EXPLAIN ABOUT LIPC.
LIPC IS A QUASI-JAPANESE GOVERNMENTAL AGENCY.
LIPC WAS ESTABLISHED IN DECEMBER 7, 1961, BY THE LAW CONCERNING THE PRICE STABILIZATION OF LIVESTOCK PRODUCTS FOR THE PURPOSE OF PERFORMING NECESSARY BUSINESS TO STABILIZE THE PRICES OF MAJOR LIVESTOCK PRODUCTS, SUCH AS BEEF, PORK, DAIRY PRODUCTS AND OTHER LIVESTOCK PRODUCTS, FACILITATING THE PROCUREMENT OF FUNDS WHICH MILK PROCESSORS NEED FOR THEIR OPERATIONS AND GIVING ASSISTANCE TO SCHEMES WHICH WOULD CONTRIBUTE TO THE PROMOTION OF THE LIVESTOCK INDUSTRY IN JAPAN.

FOR THE PURPOSE OF PRICE STABILIATION OF LIVESTOCK PRODUCTS, LIPC IS PERFORMING ALMOST SIMILAR ACTIVITIES AS THE U.S. COMMODITY CREDIT CORPORATION (C.C.C.)

LIPC CURRENTLY HANDLES 90% OF THE BEEF GENERAL QUOTA, WHICH IS EQUIVALENT TO APPROXIMATELY 80% OF ALL BEEF IMPORTS ALLOCATED BY THE GOVERNMENT OF JAPAN (GOJ).

IN JAPANESE FISCAL YEAR 1980 (APRIL 1, 1980 TO MARCH 31, 1981), THE GOJ ALLOCATED 134,800 METRIC TONS (296.6 MILLION POUNDS) OF BEEF, OF WHICH LIPC HANDLED 106,800 METRIC TONS (235 MILLION POUNDS). THAT WAS 80% OF THE TOTAL BEEF ALLOCATED.

U.S. CATTLEMEN'S FRUSTRATION.

WELL, I KNOW THAT U.S. CATTLEMEN ARE FRUSTRATED ON BEEF TRADE VERY MUCH. I HAVE HEARD THOUSANDS OF MILLIONS OF QUESTIONS FROM THOUSANDS OF MILLIONS OF PEOPLE.

FOR EXAMPLE:-

1. WHY DOESN'T JAPAN BUY MORE BEEF TO HELP BALANCE THE INCREASING TRADE IMBALANCE BETWEEN THE U.S. AND JAPAN? THE U.S. IS BUYING HUNDREDS OF THOUSANDS OF JAPANESE AUTOMOBILES, COLOR TELEVISIONS, VIDEO TAPE RECORDERS, STEREOS, MOTORCYCLES, COPY MACHINES, WATCHES, CALCULATORS, STEEL, SEMI-CONDUCTORS, ETC. ETC. ETC.

2. WHY IS THE JAPANESE BEEF IMPORT SYSTEM SO RESTRICTIVE? WHY ISN'T IT LIBERALIZED? WHY ARE THE BEEF IMPORT TARIFF AND LIPC'S SURCHARGE SO EXPENSIVE? WHY DOES BUREAUCRATIC LIPC HANDLE ALMOST ALL OF BEEF IMPORTS INTO JAPAN? WHY ISN'T IT HANDLED BY PRIVATE SECTORS? WHY SUCH RIGID AND COSTLY CERTIFICATION REQUIREMENTS, LIPC SPECIFICATIONS, LIMITED BRAND LIST, COMPLEX PRICING MECHANISMS AND OTHER NON-TARIFF TRADE BARRIERS?

3. WHY ARE THE GOVERNMENT OF JAPAN AS WELL AS LIPC MAINTAINING BEEF RETAIL PRICES AT INCREDIBLY EXPENSIVE PRICE LEVELS SACRIFICING JAPANESE CONSUMERS?
AREN'T THEY SEVEN TIMES COMPARED WITH THE U.S. BEEF RETAIL PRICES?

I AM A LITTLE BIT TIRED OF HEARING SUCH UNREASONABLE COMPLAINTS, NONE OF THESE MILLIONS OF PEOPLE MAKING THESE KIND OF COMMENTS UNDERSTAND MY OWN FRUSTRATION.

WHO ELSE IS REALLY ABLE TO EXPORT BEEF TO JAPAN?

I WOULD LIKE TO ASK ALL OF YOU, CATTLEMEN, RANCHERS, U.S. ASSOCIATE PEOPLE AND U.S. GOVERNMENT STAFF, WHO ELSE IS REALLY ABLE TO EXPORT BEEF TO JAPAN.

I THINK ALL OF YOU MAY MISUNDERSTAND THAT HUNDREDS OF THOUSANDS OF U.S. PACKERS ARE REALLY ABLE TO EXPORT THEIR BEEF TO JAPAN.

PLEASE GUESS HOW MANY U.S. PACKERS ARE ACTUALLY DOING BEEF BUSINESS WITH LIPC. 50? 100? 200? 300? or more?

NO!!!
ACTUALLY LIPC IS DOING BEEF BUSINESS WITH ONLY ABOUT 4 PACKERS IN THE U.S.

IN THE LAST HALF OF JFY 1980 (October 1, 1980 - March 31, 1981), LIPC HAS BOUGHT 85.8% of all U.S. BEEF FOR LIPC FROM ONLY THOSE 4 PACKERS AND IN THE FIRST HALF OF JFY 1981 (APRIL 1, 1981 - SEPTEMBER 30, 1981), THE BIG 4 SHARED 92.4% OF ALL U.S. BEEF FOR LIPC.

THIS TENDENCY WILL BE GOING ON AND ON. WE ARE BUYING ALMOST ALL OF U.S. BEEF FROM ONLY THOSE 4 PACKERS AND ALL OF U.S. CATTLEMEN, RANCHERS, U.S. ASSOCIATE PEOPLE AND U.S. GOVERNMENT STAFF ARE SPENDING THEIR TIME AND MONEY FOR ONLY THOSE 4 PACKERS.

OF COURSE, LIPC HAS OTHER SUPPLIERS LISTED AND WE ARE ALWAYS WELCOMING REAL AND RELIABLE TRADE PARTNERS.

CURRENTLY, LIPC HAS 30 POSSIBLE TRADE PARTNERS IN THE U.S., OF WHICH 13 SUPPLIERS WERE WELCOMED THIS PAST YEAR.

WE HAVE ALREADY HAD WELL ESTABLISHED BIG MEAT PROCESSORS ON OUR BRAND LIST AS POSSIBLE SUPPLIERS FOR LIPC. WE HAVE ALSO HAD SOME NEW SUPPLIERS WHO STRONGLY REQUESTED US TO PUT THEIR NAMES ON THE LIST.

BUT, THE TRUTH OF THE MATTER IS THAT THESE OTHERS DO NOT BID FOR LIPC TENDERS OR BID SO HIGH THAT THEIR BID IS NOT ACCEPTED BY THE TRADING COMPANIES.

UNFORTUNATELY, NONE OF THEM EXCEPT THE BIG 4, EVEN THE BIGGEST MEAT PACKER IN COLORADO, IS ACTUALLY ABLE OR WILLING TO EXPORT BEEF TO LIPC, NOR, IT SEEMS, WOULD TRULY LIKE TO SELL BEEF TO LIPC.

ALL OF THEM JUST COMPLAIN ABOUT HOW BUREACRATIC LIPC IS, HOW RIGID AND COSTLY THE CERTIFICATION REQUIREMENTS ARE, AND COMPLAIN ABOUT LIPC SPECIFICATIONS, LIMITED BRAND LIST, COMPLEX PRICING MECHANISMS, AND OTHER NON-TARIFF TRADE BARRIERS.

BUT, WHY CAN'T THEY DO WHAT THE BIG 4 CAN DO?

THAT IS BECAUSE THEY ARE MORE REALISTIC RATHER THAN IDEOLOGICAL PEOPLE. THEY KNOW THAT THE EXPORT MARKET SHARES ONLY LESS THAN 1% IN THE U.S. AND THE JAPANESE MARKET SHARES ONLY 0.6% FOR THEM.
THEY ARE WELL SATISFIED WITH THE 99% U.S. DOMESTIC MARKET.
THEY KNOW THAT THE BEST MARKET FOR THEM IS THE DOMESTIC MARKET, BECAUSE IT IS RELATIVELY MORE STABLE AND THEY KNOW MORE ABOUT IT.
THEY JUST WANT TO UTILIZE THE EXPORT MARKET WHEN THE DOMESTIC - ? MARKET IS INACTIVE.

I, AS A FOREIGN CONSUMER, HAVE BEEN ASKING THEM TO SELL THEIR BEEF TO LIPC FOR THE PAST 2 YEARS.
BUT, I HAVE ALMOST GIVEN UP. NOW, I AM SO DOUBTFUL THAT THEY ARE ACTUALLY ABLE OR WILLING TO EXPORT THEIR BEEF TO LIPC, AND THAT THEY WOULD REALLY LIKE TO SELL THEIR BEEF TO LIPC.

WHY, MUST WE, AS FOREIGN CONSUMERS, CONTINUE TO ASK PACKERS WHO DO NOT REALLY WANT TO SELL THEIR BEEF TO US FOR 2 YEARS?

I THINK IT IS YOUR RESPONSIBILITY, NOT OURS, TO ENCOURAGE THEM TO SELL GOOD BEEF AT REASONABLE PRICES WHICH ARE FIT FOR FOREIGN CUSTOMER'S NEEDS, IF YOU ARE REALLY THINKING THAT THE EXPORT MARKET IS EXTREMELY IMPORTANT.

AGAIN, PLEASE ENCOURAGE THEM TO EXPORT BEEF TO LIPC RATHER THAN PUSHING LIPC TO BUY MORE BEEF.

TRADE IMBALANCE AND BEEF TRADE

NOW, PLEASE LET ME MAKE SOME COMMENTS ON TRADE IMBALANCE AND BEEF TRADE.

MANY OF YOU MAY DRIVE A TOYOTA OR DATSUN CAR, MANY OF YOU MAY WATCH PANASONIC OR SONY COLOR TELEVISION, MANY OF YOUR SONS MAY RIDE ON A HONDA OR YAMAHA MOTORCYCLE, MANY OF YOU MAY CHECK THE TIME BY LOOKING AT YOUR SEIKO OR CITIZEN WATCHES, AND MANY OF YOU MAY HAVE NIKON OR PENTAX CAMERAS. ALTHOUGH I DRIVE A FORD AND WATCH G.E. COLOR TELEVISION.

I CAN UNDERSTAND YOUR NATURAL FEELING - "WHY DOESN'T JAPAN BUY MORE OF OUR BEEF?"

IN THE CURRENT NUMEROUS TRADE TALKS BETWEEN THE U.S. AND JAPAN, THE U.S. HAS ALWAYS BEEN ASKING JAPAN TO BUY MORE BEEF FROM THE U.S., INDICATING AN INCREASING TRADE DEFICIT TO JAPAN.

I KNOW ALL OF YOU HAVE THE SAME IDEAS - JAPAN SHOULD BUY MORE U.S. BEEF.

BUT, THIS IS JUST A ONE-SIDED IDEA. WE HAVE ANOTHER IDEA. THE JAPANESE VIEWPOINT ON TRADE IMBALANCE AND BEEF TRADE IS DIFFERENT.

I THINK THAT IF YOU TRY TO FORCE US TO BUY MORE OF YOUR BEEF BECAUSE OF THE TRADE IMBALANCE BETWEEN THE U.S. AND JAPAN, THE OPPOSITE WILL ACTUALLY HAPPEN AND WE MUST REDUCE OUR BEEF ALLOCATION.

LET ME EXPLAIN OUR RATIONALE FOR THAT VIEWPOINT.

IT IS TRUE THAT THERE IS A TRADE IMBALANCE BETWEEN THE TWO COUNTRIES. HOWEVER, JAPAN HAS ALSO A BIG TRADE DEFICIT TO OTHER COUNTRIES, SUCH AS AUSTRALIA, OPEC COUNTRIES, AND SO ON.

JAPAN WOULD NEED TO REDUCE ITS GREAT TRADE DEFICIT TO THOSE COUNTRIES, TOO. WE ARE BUYING MUCH MORE BEEF FROM AUSTRALIA. ALMOST 80% OF ALL BEEF IMPORTS COMES FROM AUSTRALIA.

IF THE U.S. THEORY THAT EACH COUNTRY MUST HAVE AN EQUAL TRADE BALANCE WITH EACH OTHER, IS CORRECT - THEN WE MUST APPLY THIS SAME THEORY TO AUSTRALIA, TOO. THEREFORE, WE MUST REDUCE BEEF ALLOCATION TO REDUCE THE BIG TRADE DEFICIT BETWEEN JAPAN AND AUSTRALIA.

IN THIS CASE, WE CAN NOT REDUCE ONLY THE BEEF ALLOCATION TO AUSTRALIA BECAUSE WE DO NOT ALLOCATE BEEF TO SPECIFIC COUNTRIES, WE ALLOCATE BEEF ON A GLOBAL BASIS.

IN ADDITION TO THAT, ALTHOUGH THE U.S. IS ASKING E.C. COUNTRIES TO BUY MORE U.S. BEEF, AGAIN, IF THE U.S. THEORY IS CORRECT, THE U.S. MUST BUY MUCH MORE OF THEIR BEEF BECAUSE THE U.S. HAS A GREAT TRADE SURPLUS TO E.C. COUNTRIES.

WHAT I WANT TO SAY IS THAT THE TRADE IMBALANCE BETWEEN THE U.S. AND JAPAN WAS NOT CAUSED BY BEEF TRADE OR EVEN AGRICULTURAL TRADE.
THE TRADE IMBALANCE COULD NOT BE RESOLVED WITHOUT RESOLVING ITS REAL CAUSE.

PLEASE REMEMBER THAT JAPAN IS THE WORLD NUMBER 1 CUSTOMER OF U.S. BEEF, AND ALSO THE WORLD NUMBER 1 IMPORTER OF U.S. AGRICULTURAL COMMODITIES, SUCH AS: WHEAT, CORN, SORGHUM, SOYBEAN, COTTON, LUMBER AND SO ON.
OUR STOMACH GETS FULL ON U.S. AGRICULTURAL COMMODITIES.

YOU ARE CRITICISING YOUR WORLD NUMBER 1 BUYER.
YOU ARE IGNORING JAPANESE CATTLEMEN, AND JAPANESE FARMERS.
YOUR ARE CHALLENGING A THIRD COUNTRY'S POLICY AND LAW.

PLEASE DO NOT FORGET THAT JAPANESE NUTRITIONAL LEVEL HAS ALMOST REACHED THE CEILING, JAPANESE DO NOT EAT SO MUCH BEEF AND MANY JAPANESE ARE NERVOUS ABOUT CALORIES, FAT, AND CHOLESTEROL, AS AMERICANS ARE.

WE HAVE REACHED OUR CAPACITY - OR DO YOU WANT US TO HAVE 2 STOMACHS?

IS JAPAN REALLY RESTRICTIVE ON BEEF IMPORTS?

HUNDREDS OF THOUSANDS OF PEOPLE COMPLAIN THAT JAPAN IS THE WORST COUNTRY FOR RESTRICTING BEEF IMPORTS IN THE WORLD, AND THEY POINT OUT JAPAN'S BEEF QUOTA SYSTEM, NOTORIOUS LIPC, LIMITED BRAND LIST, RIGID AND COSTLY CERTIFICATION REQUIREMENTS, LIPC SPECIFICATIONS, COMPLEX PRICING MECHANISMS, ETC. ETC. ETC.

ARE THESE TRUE?

IS JAPAN REALLY RESTRICTIVE ON BEEF IMPORTS?

I HAVE ANOTHER OPINION, THAT IS, I THINK THE U.S. IS MUCH MORE RESTRICTIVE ON BEEF IMPORTS BECAUSE THE U.S. IS LIMITING BEEF IMPORTS TO APPROXIMATELY ONLY 7-8% OF THE TOTAL DOMESTIC BEEF PRODUCTION BY THE"MEAT IMPORT ACT OF 1979".

ON THE OTHER HAND, JAPAN IS NOW IMPORTING BEEF TO APPROXIMATELY 34-45% OF THE TOTAL DOMESTIC BEEF PRODUCTION.

IMPORTED BEEF SHARES NUMBER 1 IN THE VARIETIES OF BEEF IN JAPAN. IN 1980, IMPORTED BEEF, WAGYU BEEF WHICH IS JAPANESE TRADITIONAL BEEF, DAIRY STEER BEEF, DAIRY COW BEEF,AND VEAL REPRESENTED 29.4%, 22.6%, 24.3%, 23.3% and 0.4% RESPECTIVELY OF THE TOTAL BEEF CONSUMPTION IN JAPAN - IMPORTED BEEF SHARES THE LARGEST PERCENTAGE.

HOW CAN IMPORTED BEEF BE THE LARGEST PERCENTAGE SOLD IN THE WORLD'S WORST COUNTRY FOR RESTRICTING BEEF IMPORTS?

THE U.S. OFTEN INSIST THAT THE U.S. BEEF IMPORT IS FREE IF IT'S UNDER THE TRIGGERING LEVEL, THE U.S. IS WORLD NUMBER 1 BEEF IMPORTER IN VOLUME AND EXPORTING COUNTRIES EXPORT THEIR BEEF AT THE MAXIMUM LEVEL.

BUT, THE TRIGGERING LEVEL IS CALCULATED BASED ON PAST BEEF IMPORTS AND OTHER FACTORS WHICH LIMIT THE ACTUAL IMPORTS TO APPROXIMATELY ONLY 7-8% OF THE TOTAL DOMESTIC BEEF PRODUCTION.

IT IS APPARENT THAT THE U.S. IS THE WORLD NUMBER 1 BEEF IMPORTER IN VOLUME. BUT THE IMPORTANT THING IS THE EFFECT TO DOMESTIC PRODUCERS. FOR EXAMPLE, WOULD THE U.S. CATTLEMEN ALLOW AN EXPANSION OF ITS BEEF IMPORT LIMITATION UP TO 35-45% OF THE TOTAL DOMESTIC PRODUCTION, AS DOES JAPAN, OR TO LIBERALIZE THE LIMITATION COMPLETELY?

WHICH COUNTRY COULD DEMAND TO EXPAND OR LIBERALIZE COMPLETELY A THIRD COUNTRY'S BEEF IMPORTS WITHOUT EXPANDING OR LIBERALIZING COMPLETELY IT'S OWN BEEF IMPORTS?

I KNOW MANY PEOPLE ARE COMPLAINING ABOUT THE 25% TARIFF AND LIPC SURCHARGE.

THEY SAY THAT IF THERE WERE NOT SUCH AN EXPENSIVE TARIFF AND LIPC SURCHARGE,JAPANESE CONSUMERS COULD ENJOY LESS EXPENSIVE U.S. BEEF.

HOWEVER, HOW MANY OF YOU KNOW THAT THE U.S. SUPPLIERS ARE PUTTING 25-30% ADDITIONAL COSTS ON THEIR BEEF WHICH IS SOLD TO US, AND THIS IS MORE THAN THE TARIFF EQUIVALENT?

IF THEY COULD SELL US BEEF AT REASONABLE PRICE, THEN JAPANESE CONSUMERS COULD REALLY ENJOY MORE IMPORTED BEEF.

WITH REGARD TO THE LIPC SURCHARGE, IT IS REGULATED BY LAW AND LIPC NEEDS TO FOLLOW THE LAW.

JAPANESE BEEF RETAIL PRICES

I AM GOING TO EXPLAIN ABOUT JAPANESE BEEF RETAIL PRICES.

I THINK ALL OF YOU MISUNDERSTAND THAT THE JAPANESE BEEF RETAIL PRICES ARE ABNORMALLY EXPENSIVE BY HEARING MISLEADING INFORMATION, SUCH AS U.S.D.A., FOREIGN AGRICULTURAL SERVICE "SURVEY OF AVERAGE RETAIL FOOD PRICES IN SELECTED WORLD CAPITALS" AND SO ON.

FOR INSTANCE, THE U.S.D.A. SURVEY SAYS THAT THE AVERAGE RETAIL PRICE OF SIRLOIN STEAK AND CHUCK ROAST IN TOKYO ON SEPTEMBER 1, 1981, WAS $37.72 AND $23.28 PER KG. ($17.11 AND $10.56 PER LB.) RESPECTIVELY, WHILE THE PRICE IN WASHINGTON D.C. WAS $7.91 AND $4.39 PER KG. ($3.59 AND $1.99 PER LB.) RESPECTIVELY.
THIS MEANS THAT THE JAPANESE BEEF RETAIL PRICES ARE APPROXIMATELY 5 TIMES HIGHER THAN THE U.S. PRICES.

THIS IS COMPLETELY MISLEADING INFORMATION.

AS YOU MAY KNOW, THERE ARE MANY VARIETIES OF BEEF IN QUALITY AND IN PRICE IN JAPAN, FROM WAGYU, JAPANESE TRADITIONAL BEEF TO IMPORTED BEEF.

IF A PRICE RESEARCHER RESEARCHS ONLY THE MOST EXPENSIVE BEEF PRICES AT LIMITED EXPENSIVE SHOPS AND SAYS THOSE PRICES ARE AVERAGE, THE PRICES QUOTED MAY MISLEAD MANY PEOPLE INTO THINKING

THAT BEEF PRICE IN TOKYO IS EXORBITANT.

I THINK HE SHOULD RESEARCH BEEF PRICES ON THE SAME BASIS - ESPECIALLY QUALITY AS LONG AS HE CAN.

HE SHOULD RESEARCH IMPORTED BEEF PRICES BECAUSE THE QUALITY OF BEEF IN WASHINGTON D.C. IS THE SAME AS THE QUALITY OF IMPORTED BEEF IN TOKYO, AND THE IMPORTED BEEF SHARES THE LARGEST PERCENTAGE OF THE BEEF MARKET IN JAPAN.

I WOULD LIKE TO INFORM YOU THAT THE PRICE OF IMPORTED SIRLOIN STEAK AND CHUCK ROAST IN TOKYO ON SEPTEMBER 1, 1981, WAS $10.65 AND $7.61 PER KG. ($4.83 AND $3.45 PER LB.) RESPECTIVELY. IT MEANS THAT THE AVERAGE JAPANESE ENJOY REASONABLE BEEF RETAIL PRICES AT APPROXIMATELY ONLY 1.5 TIMES HIGHER THAN PEOPLE IN THE U.S.

IT IS TRUE THAT THERE IS STILL A SUBSTANTIAL BEEF RETAIL PRICE DIFFERENCE BETWEEN THE U.S. AND JAPAN, IF YOU WOULD COMPARE JAPANESE DOMESTIC BEEF AND YOUR BEEF.

THIS IS BECAUSE JAPANESE CATTLEMEN HAVE TO FEED THEIR CATTLE UNDER LIMITED CIRCUMSTANCES, THAT IS, LIMITED LAND SPACE, IMPORTED FEED GRAIN, EXPENSIVE LABOR COST AND SO ON.

WE ARE TRYING TO REDUCE THE COSTS STEP BY STEP. WE ARE TRYING TO REACH AT LEAST THE PRODUCTION COST LEVEL IN E.C. COUNTRIES. WE HAVE ALREADY SUCCEEDED TO REACH THAT LEVEL IN THE DAIRY SECTOR.

BEEF RETAIL PRICE DIFFERENCE BETWEEN THE U.S. AND JAPAN IS GETTING REDUCED GRADUALLY. AS A RESULT, LIPC CAN ONLY SELL IMPORTED BEEF APPROXIMATELY 70-80% OF THE SCHEDULED SELLING AMOUNT. THE ERA HAS BEEN CHANGED. NOWADAYS, JAPANESE CONSUMERS DO NOT WANT TO BUY IMPORTED BEEF SO MUCH. AS A CONSEQUENCE, LIPC'S STOCK INVENTORY OF BEEF IS INCREASING. WE MUST PAY $500,000 OR OVER PER MONTH JUST FOR STORAGE CHARGES FOR IMPORTED BEEF.

COULD THE U.S. BECOME A COMPETITIVE AND PROFESSIONAL EXPORTER?

QUITE FRANKLY, I THINK THE U.S. IS MAKING A COMPLETE STRATEGIC MISTAKE.

FIRST OF ALL, THE U.S. IGNORES THAT THE U.S. BEEF IS NOT COMPETITIVE IN PRICE IN THE WORLD MARKET COMPARED WITH AUSTRALIAN OR ARGENTINIAN BEEF.

THE WORLD IS STILL LOOKING FOR CHEAPER BEEF. SO, THE WORLD MARKET FOR THE U.S. BEEF IS ONLY LIMITED IN SPECIFIC AREAS SUCH AS HOTELS OR RESTAURANTS.

THE U.S. BEEF NEEDS SOME SPECIAL ASSISTANCE.
DO YOU REALIZE THAT THE U.S. SHARES 20-25% FOR LIPC FROZEN BEEF TENDER WHILE THE U.S. SHARES 0% FOR THE CHILLED BEEF TENDER?
THIS IS BECAUSE THE U.S. FROZEN BEEF IS GIVEN SPECIAL ASSISTANCE.

SECONDLY, THE U.S. IS NOT A REAL SALESMAN.
DO YOU KNOW HOW MANY JAPANESE BUYERS OPEN THEIR OFFICES IN THE U.S., WHILE NONE OF THE U.S. PACKERS OPENS AN OFFICE IN JAPAN?
DO YOU KNOW HOW MANY JAPANESE TRADE REPRESENTATIVES ARE IN THE U.S. AND SPEAK ENGLISH, WHILE NONE OF THE ACTUAL U.S. BUSINESS REPRESENTATIVES ARE IN JAPAN?

HOW COULD YOU SELL YOUR BEEF WITHOUT SPEAKING, READING OR WRITING JAPANESE?
HOW WOULD YOU SELL YOUR BEEF WITHOUT KNOWING THE JAPANESE BEEF INDUSTRY?
THE THING IS, YOU NEED TO SELL YOUR BEEF MORE THAN WE NEED TO BUY YOUR BEEF AND YOU DO NOT REALIZE THAT.

THIRD, THE U.S. IS TOO MUCH POLITICALLY AGGRESSIVE TO SELL BEEF. WE ARE REALLY WILLING TO TALK MORE FRIENDLY ON ACTUAL BEEF BUSINESS.
BUT, THE U.S. IS ALWAYS BEATING THE DESK.
PLEASE REALIZE THAT WE HAVE OUR OWN CATTLEMEN , WE HAVE OUR OWN SELF-SUFFICIENCY PROJECTIONS, WE HAVE OUR OWN LAWS AND REGULATIONS.
PLEASE DO NOT PUSH US SO POLITICALLY AGGRESSIVELY. WE ARE NOT SUCH TOUGH NEGOTIATORS.

FOURTH, PLEASE REALIZE THAT THE EXPORT MARKET IS NOT SO BRIGHT, IT IS INDEED RATHER RISKY. YOUR BEST MARKET IS THE DOMESTIC MARKET, BECAUSE IT IS RELATIVELY MORE STABLE AND YOU KNOW MORE ABOUT IT. EVERYTHING IN ANY INDUSTRY CAN NOT BE GOOD ALL THE TIME OR BAD ALL THE TIME.

IF YOU HAVE ANY QUESTIONS OR NEED ASSISTANCE, I AM MORE THAN WILLING TO DO MY BEST TO HELP YOU.

STATEMENT OF

WILLIAM D. HUGHES, PRESIDENT

KING MEAT PACKING COMPANY

March 2, 1982

For simplification, I will try to avoid too many technicalities that might cloud the basic issues.

Due to the quota system and the fact that a quasi governmental agency is the purchaser of 80% of the beef imported, a black market system has developed. If a person is fortunate enough to have a quota, he can sell this right to purchase for as much as one dollar per pound.

The Japanese government publically states that American beef is not popular, yet when American beef was sold at legitimate prices aboard a vessel displaying 8,000 U. S. products, near riots occured. U. S. beef was the best seller of the 8,000 items.

The quasi governmental agency called Livestock Industry Promotion Corporation (LIPC), being the purchaser of 80% of the imported beef, has the authority to regulate the amount and price; the country and company of origin. Consequently, there is no free and fair marketing of U. S. beef in Japan. Under this existing system, the true acceptance of U. S. beef will never be known.

Under this existing system of quotas and restrictions, the sales of non-quota beef items is extremely positive with these items (due to their non-quota status) bringing a price much higher than their true market. It is strongly believed that if the quotas and price fixing in Japan were eliminated, sales of U. S. beef chould be expanded by five-fold.

A classic example of this situation is the price of a USDA choice striploin sold to a hotel in Hong Kong vs. a hotel in Japan. If the striploin has a value of $3.00 per pound FOB a West Coast port, the freight to Hong Kong is approximately sixteen cents and to Japan is approximately fourteen cents per pound. Hong Kong is a duty free, non-quota open market. The landed cost would be $3.16 per pound and with the importers profit the hotel in Hong Kong would pay between $3.45 to $3.50 per pound for the striploin. About the same price as a hotel in Hawaii or Florida. But, the same piece of meat in Japan would have a different and devious route. The landed cost of the product would be $3.14 per pound plus the duty of 25% or a total of $3.925. The LIPC would then pick an arbitrary price that would in effect be a floor price when they auctioned the meat to authorized meat dealers. The net effect is that while a Hong Kong hotel would pay $3.50 per pound, the Japanese hotel would pay between $10 to $15 per pound!!! This is a great attempt on the government of Japan to try and make U.S. beef unpopular.

Another point that LIPC uses against U. S. beef is their discriminatory requirements. The U. S. must provide yield and quality graded beef, certified by the USDA. This requirement is not required by any other country. The United States only.

The list of complaints could go on and on, but I think these few exemplify the problem. The U. S. is just not provided with fair access to the Japanese market for beef.

STATEMENT OF
RON DAVIS, EXECUTIVE VICE PRESIDENT
COLONIAL BEEF COMPANY
March 6, 1982

Outlined below are some of the barriers which have been placed in the path of U.S. exporters involving Japan and EC countries.

1. SPACE EXPO

In 1978, a Space Expo was organized in Japan and the Space Expo organizing committee requested 200MT to be sold during the 90-day Expo. After months of negotiations, MITI eventually agreed to a 50MT beef quota allocated to three Japanese trading companies: Mitsubishi, Sumitomo and Toshoku. The reason cited by MITI for refusal to allow the 200MT quota was the lack of demand.

After the product was delivered, certain restrictions were placed on the Committee as follows:

(a) The meat could be sold at only one location instead of the six to ten originally discussed.

(b) No advertising of any kind could be done by the Space Expo committee.

(c) No meat could be sold on weekends, during which time over one-third of the visitors came to the show.

(d) After all of these restraints succeeded in curtailing the sale of beef substantially, a six-month extension that was requested was denied.

Needless to say, the Japanese made it well known that their contention that there was little demand for U.S. beef was now substantiated. I enclose copies of a communication from the AGATT in Tokyo concerning the Space Expo, as well as a letter from me to Susan Schwab of the STR highlighting the problems in selling this product.

2. BOATIQUE AMERICA

In 1979, the Department of Commerce undertook a promotion for U.S. manufactured goods called Boatique America. A Japanese ship, the Shin Sakura Maru, was outfitted as an exhibition ship which visited 13 Japanese ports carrying many different U.S. products, such as sporting goods, women's apparel, hardware supplies, etc. The main attraction for this promotion was to be the sale of U.S. beef and citrus items, and the DOC requested 1000MT.

After substantial negotiations, MAFF and MITI eventually agreed upon 130MT. Just prior to the beef products being shipped, Zennikuren (the Japanese butcher union co-op) threatened to picket the ship at its first port in Tokyo. It was not until after I was able to get the Amalgamated Meat Cutters and Seafarers International Unions to threaten reciprocal action that Zennikuren relented and the exhibition proceeded.

Following is an excerpt from an article in the Nippon Times:

> "America's latest effort to promote exports to Japan — a floating department store — proved at least one thing during five days of sales here.
>
> Japanese consumers like American beef, or at least they like the prices.
>
> By the time the 13,082-ton Shin Sakura Maru left Tokyo Wednesday to move to the second of 13 ports of call in Japan, beef sales had accounted for almost 24% of the $646,702 worth of merchandise sold aboard the ship which was anchored at Harumi Pier. The next best-selling category — women's apparel — brought in only about half as much.
>
> The crowds, especially over the weekend, were large and many people went directly to the beef counter on the lower deck where sirloin was selling for $7.59 a pound — a bargain by Japanese standards. Weekend crowds were so big that thousands had to be turned away.
>
> Beef sales, which were restricted to 2.2 pounds (one kilogram) per customer, were cut off after four hours one day when the daily allocation of 2,600 kilograms (5,720 pounds) ran out."

This is a good indication of the real demand for U.S. beef in Japan and I have little doubt that the entire 1,000MT could have been easily sold out.

3. HARUMI SHOW

Each year there is an international food show held at the Harumi Pier in Tokyo, and with only one exception, the FAS participates, as do a large number of U.S. food companies. Each and every year the FAS attempts to obtain a special promotional quota during the five-day show. During a recent show, 30MT was allowed out of the 100MT requested. The entire 30MT was sold within four hours.

In 1978, the MAFF increased the hotel quota from 1,500MT per year to 3,000MT. This is the quota not controlled directly by LIPC (Livestock Industry Promotion Corporation), and is allocated to certain hotels and trading companies.

Since 1978, many large new hotels have been built and restaurants, supermarkets and catering companies have virtually begged for U.S. meat products; yet not one additional pound has been added to the hotel quota.

4. EC COUNTRIES

During the Multi-Lateral Trade negotiations, the EC countries agreed to import 10,000MT per year of high quality U.S. beef. To date they have never imported more than one-fifth of that amount in any year, mainly due to the following:

(a) EC countries charge a 20% tariff plus a 25 to 50¢ per pound monetary currency adjustment and an additional 5 to 10¢ per pound customs charge, which raises U.S. beef anywhere from 50¢ to $2.00 per pound more than its original price, which is substantially higher than meat exporting countries such as Scotland, Ireland and France.

(b) The U.S. can only send in Choice and Prime meats or products from cattle that have met their rigid age and feed requirements. No such restrictions are placed on Argentina, Uganda, Uruquay, Australia, New Zealand or the iron-bloc countries.

(c) Over one-half of the EC countries will allow no U.S. meat products to be imported unless they weigh at least 3 kilograms or 6.6 ounces. This eliminates the export of any portion control products which, of course, are the value-added items that produce the most revenue and jobs.

(d) Throughout the EC, countries may not import non-identifiable products. Therefore, ground, diced or flaked meat and cuts not readily identifiable to the EC cannot gain entry.

5. AUSTRIA

Austria agreed to purchase 300MT of beef per year from the United States. While they do require the same taxes and high quality beef standards, portion control products are allowed. The one unreasonable requirement is that no frozen product can enter the country. Therefore, all meat exported from the U.S. must be fresh-chilled.

Frozen meat could be sent by vessel at a cost of approximately 15 to 20¢ per pound; however, fresh-chilled meat can be sent only by plane, costing from 88¢ to $1.00 per pound, therefore making the meat "too expensive". The irony of this situation is that when the fresh-chilled beef arrives, it is then taken and immediately frozen.

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506
202-395-5114

June 8, 1982

The Honorable E (Kika) de la Garza
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of March 18, 1982, transmitting several questions concerning the general agricultural export and trade situation for which you would like written responses to include in the record of the March 9 hearing of the Committee on Agriculture. Those responses are set forth below.

1. Sugar

Why was the spot price for domestic sugar below the market stabilization price? Will further Section 22 action be required?

-- There is no one answer as to why the spot price remained below the market stabilization price. Higher levels of imports in the first quarter coupled with the news that the EC crop was bigger than expected contributed to the situation. As you are aware, the Administration was forced to go to a quota system when it became apparent that fees and duties alone would not suffice to meet the price objective.

2. Caribbean Basin Initiative

a. What quantitative restriction will be applied to avoid flooding the market with additional sugar imports?

-- The original Caribbean Basin Initiative (CBI) proposal contained specific quantitative limits on the amounts of sugar that could enter the United States duty-free from the major Caribbean suppliers. Given the recent imposition of quotas on imported sugar, these numbers have been significantly reduced.

b. Adjustments to be made on Section 22 fee and the effect this would have on U.S. consumers?

-- Passage of the original CBI proposal might have resulted in an increase in the Section 22 fee by about 1 cent. In fact, the Department was forced to raise the fee to protect the domestic program before CBI was passed. An increase in the fee could be expected to have a positive effect on consumer prices.

c. Effect of the initiative on trade relations with other major trading partners and suppliers of sugar?

-- The Administration has consulted with other trading partners as a part of the development of the CBI. All understand the goals of the initiative and support the effort to bring stability to the Caribbean.

d. What about other agricultural products?

-- The initial CBI proposal included winter vegetables and citrus in the free trade area. A fast track safeguard system was designed for perishables. It was felt this would sufficiently insure that domestic producers of these commodities would not be injured.

3. European Economic Community (EEC)

a. Is there any hope that the EEC will adjust its domestic farm program that encourages overproduction?

-- EEC officials, both in the EEC Commission and in the Member States, are well aware of the need to reform their existing agricultural policies. A number of proposals aimed at such reform have been advanced in recent years. While we are not particularly encouraged by the proposals made thus far, or the responses of the Member State governments to them, we remain hopeful that the EEC will eventually revise its agricultural policies so as to effectively curb overproduction and thereby alleviate the problems these policies cause for the United States and other exporters. Our policies are aimed at demonstrating the adverse effects of certain EEC policies on world agricultural trade to Community officials and at inducing them to adopt the appropriate changes in these policies.

b. The following is the information you requested with respect to the pending Section 301 cases involving alleged unfair EEC practices in the agricultural sector.

-- Wheat Flour. The Section 301 petition was filed by the Millers' National Federation on December 1, 1975, alleging that the EEC provided subsidies for the exportation of wheat flour in a manner inconsistent with the obligations of the EEC under Article XVI:3 of the GATT. The Subsidies Code dispute settlement panel which is reviewing the U.S. complaint is now completing its work. It is expected to submit its findings to the United States and the EEC within the next few weeks.

-- Pasta Products. The Section 301 petition was filed by the National Pasta Association on October 16, 1981, alleging that the EEC was acting inconsistently with Article XVI of the GATT and Articles 8 and 9 of the Subsidies Code in granting export subsidies on pasta exports and thereby displacing U.S.-produced pasta in the U.S. market. A dispute settlement panel has been established pursuant to Article 18 of the Subsidies Code and will begin its review of the U.S. complaint within the next few weeks. We anticipate that dispute settlement will be completed in September.

-- Poultry. The Section 301 petition was filed by the National Broiler Council on September 17, 1981, alleging that the EEC grants subsidies on the export of poultry and that the Government of France grants subsidies on the production of poultry in a manner inconsistent with its obligations under GATT Article XVI and Articles 8 and 10 of the Subsidies Code. Consultations were held with the EEC in February of 1982 but did not result in a resolution of the issue. During these discussions, however, the question of subsidized poultry exports from Brazil was raised. We are now in the process of requesting informal consultations with Brazil regarding its subsidy programs. After these have been completed, we will be in a position to decide the best manner to proceed in this case.

-- Citrus. The Section 301 petition was filed by the Florida Citrus Commission, et al. on November 12, 1976, alleging that the EEC preferential import duties on citrus products imported from certain Mediterranean countries are inconsistent with the EEC's GATT obligations. We completed consultations under Article XXIII:1 of the GATT in April 1982. This was the last in a series of formal and informal consultations which have not resulted in a resolution to the problem. It is our intention to request establishment of a dispute settlement panel at the next GATT Council meeting scheduled for the end of this month. While we cannot say with certainty how much time will be needed to review the case, the Framework Agreement generally calls for panels to complete their work in three to nine months.

-- Sugar. The Section 301 petition was filed by the Great Western Sugar Company on August 20, 1981, alleging that the EEC maintains export subsidies on sugar which result in the EEC causing serious prejudice to U.S. interests and having more than an equitable share of the world export trade in sugar in violation of EEC obligations under the Subsidies Code. Bilateral consultations were held with the EEC on February 16, 1982, and in April the Subsidy Code Committee was asked to use its good offices to effect conciliation of the dispute. Thus far we have not been able to resolve our dispute with the EEC. USTR will make a recommendation to the President on this case pursuant to Section 304 no later than June 5. The President will be required to publish his determination on or before June 26.

-- Canned Fruit and Raisins. The Section 301 petition was filed by the California Cling Peach Advisory Board, et al. on October 29, 1981, alleging that the EEC maintains production subsidies on canned peaches, canned pears and raisins which displace U.S. sales in the EC market and impair tariff concessions to the United States in violation of the GATT. Consultations were held in February and April 1982 but did not resolve the dispute. The United States has requested a panel which is expected to begin reviewing the U.S. complaint in late June.

4. International Commodity Agreements

What are your views concerning U.S. involvement in international agreements aimed at commodity price stabilization--for example--as to wheat and sugar, among other commodities--and also as to agreements relating to food security?

-- In general, this Administration is skeptical about the benefits of stabilization-type agreements. We feel, in most cases, commodity trade problems, like other economic and trade problems, are best solved through the operation of market forces. However, we have taken a pragmatic approach to this issue and have examined commodity issues on a case-by-case basis.

In a limited number of cases, we feel that commodity agreements can serve a useful function and that U.S. participation in them is desirable. Thus, we are members of the international agreements for coffee, sugar, and rubber. As concerns the international sugar agreement, we feel that the absence of the European Economic Community from this agreement has seriously hindered its effectiveness; discussions with the EEC are underway and we are hopeful that they will join.

We are a member of the International Wheat Agreement, a forum for international discussion and the exchange of information. However, we do not believe that a price stabilization agreement would be effective for this commodity. Our previous experience in negotiations aimed at establishing such an agreement strongly support this belief.

As concerns food security, the United States is involved in a number of important programs which greatly contribute to world food security. We are members of the Food Aid Convention and have made by far the largest commitments to food aid of any country in the world. We are also major contributors, of both money and technical expertise, to a vast number of bilateral and multilateral programs aimed at improving the ability of poor countries to feed themselves. The U.S. farmer-owned reserve program and the 4-million ton security reserve designed to back up our food aid commitments also contribute in a major way to world food security. For all of the above reasons, we feel that the record of the U.S. Government as concerns food security is outstanding but we are, of course, prepared to examine carefully any new proposals in this area.

5. Trucking Reciprocity

What is the current status of the negotiations between the United States and Mexico with respect to the question of trucking reciprocity?

-- The inequity of the present situation has not passed unnoticed at the Office of the United States Trade Representative. In June 1981, USTR, along with the Departments of State, Commerce, and Transportation, intervened with the Interstate Commerce Commission to request that it consider the issue of reciprocal treatment in determining whether to grant an operating certificate to a Mexican trucking applicant.

Subsequent to our intervention, the Commission has issued no permanent certificates to Mexican trucking firms and has agreed to review the question of whether reciprocity is an appropriate criterion in determining the issuance of certificates to such applicants.

Since October 1981, additional Mexican applications have been consolidated by the Commission with the earlier one, and we anticipate it will hand down a decision on all such requests next month. We should learn at that time what the Commissioner's official position on reciprocity is, under ICC's existing authority.

Under the aegis of the U.S.-Mexico Joint Commission on Commerce and Trade, a Transportation Working Group was established in September 1981 to explore trucking issues between the two countries. We have held several meetings and while some progress has been made to date, there have been no substantive breakthroughs. The Transportation Working Group is tentatively scheduled to meet again in Washington in June to continue its efforts.

We are also keenly aware of the differences in regulation of the trucking sector between the United States and Canada. Last November, this Office sent a letter to Reece Taylor, Chairman of the Interstate Commerce Commission (ICC), urging the ICC to consider this matter.

The ICC has subsequently initiated an investigation into Canadian laws and policies governing U.S. motor carrier entry into that country. While this investigation is underway, the ICC has suspended the consideration of pending applications from Canadian motor carriers for operating authority in the United States.

I hope the above information adequately addresses your questions. If we can be of any further help to you, please let me know.

Sincerely,

David R. Macdonald

DEPARTMENT OF STATE
Washington, D.C. 20520

APR 1 4 1982

Dear Mr. Chairman:

I am pleased to forward answers to the questions on agricultural exports which you sent to Assistant Secretary Hormats with your March 18 letter.

Please feel free to call on me if I can be of any further assistance.

With cordial regards,

Sincerely,

Powell A. Moore
Assistant Secretary
for Congressional Relations

The Honorable,
E (Kika) de la Garza, Chairman,
Committee on Agriculture,
House of Representatives.

Q: The House Agriculture Committee held hearings during the last session to explore the world hunger situation, and we heard testimony from Secretary Block, and witnesses from the State Department at that time. Can you tell us if the Administration feels it is making progress in the fight against hunger and if any new initiatives are planned in this regard?

A: The Administration believes that world hunger is a long-range problem, which will require a great deal of time to overcome. Although progress in this field is difficult to measure, we are making a major effort, and there are hopeful signs. In 1981 world cereal production rose by almost six percent, and coarse grain production rose by nine percent. The overall growth obscures wide variations experienced by different geographic areas, especially in Africa, which had only a two percent growth in food production in 1981. Because of the high levels of world production last year, grain stocks are being substantially rebuilt over last year, and the food supply situation has significantly improved. Nevertheless, almost half a billion people still suffer from hunger or malnutrition.

The U.S. is proud of its leadership role in the struggle against world hunger. We are the largest bilateral donor of agricultural development assistance. U.S. bilateral assistance for agriculture, rural development, and nutrition will reach over $680 million this fiscal year. We contribute more food aid than all other countries combined. We provide about $1.5 billion, or about 5 million tons of grain, in food aid annually. With our reliance on the marketplace, we produce more than half of all exported grain, and our grain reserves, the largest on earth, are ample for all commercial and food aid purposes. The U.S. currently maintains a four million ton Food Security Wheat Reserve to back up our food aid commitments even in situations of tight supply. Our farmer-owned grain reserve, currently about 45 million tons, helps assure availability of supplies to all buyers over the long term.

At the Cancun Summit last fall, President Reagan made clear his direct and personal interest in the problem of global hunger. In his Philadelphia speech preceding the Summit, he emphasized U.S. support for "market-oriented policies ... which reduce or eliminate subsidies to consumers and which provide adequate and stable price incentives to increase production." At the Cancun Summit the President also announced the creation of special agricultural task forces to assist developing countries. Working closely with senior decision-makers in the host country, task force members will concentrate on national policies, science and technology, and the private sector role.

Q: It has come to my attention that FY 1982 funding for the the Inter-American Institute for Cooperation on Agriculture (IICA) has been held up in the Continuing Resolution, and will not be available until the final quarter of FY 1982, and that this delay has the potential to hamper efforts to stem further outbreaks of African Swine Fever in the Caribbean Basin. Can you tell me if the Administration will support immediate funding for this agency, as it has the OAS, and if it does not, how such a budget concern is consistent with the Caribbean Basin Initiative?

A: I understand that, for budget reasons, the U.S. no longer pays all contributions to international organizations on the date due. We believe that most international organizations, including the IICA, are adjusting by exercising budgetary restraint and streamlining their organizations. We also plan to reduce the delay in the payment of our FY 1982 contributions, which will enable IICA to adjust its 1982 expenditure pattern.

Q: Can you reiterate for me your views concerning United States involvement in international agreements aimed at commodity price stabilization - for example - as to wheat and sugar, among other commodities - and also as to agreements relating to food security?

A: The United States generally favors trade in international commodities through free and open markets. Nevertheless, we have cooperated with UNCTAD and other international organizations on a wide range of commodities. We have considered proposals on a case by case basis for economically sound, market oriented agreements that offer a balance between producer and consumer interests. The US is presently a member of price stabilizing agreements covering natural rubber, sugar and coffee. Our membership in the Fifth International Tin Agreement will expire in June. The current International Wheat Agreement is not a price stabilization agreement, but rather an arrangement among importers and exporters to exchange information and news on wheat market developments on a regular basis.

Q: The United States extended the grain agreement with the USSR through the end of this fiscal year. What plans does the Administration have to begin talks on a renewal of the long-term agreement? If the answer is none--what will be done to assure continued exports to the USSR after the end of the fiscal year?

A: In response to the Soviet-inspired repression of human and civil rights in Poland, in late December the President announced a package of sanctions against the USSR, including the postponement of negotiations on a new long-term grain agreement. No decision has been made to lift that sanction and begin negotiations.

If there were no long-term agreement in force after September 30, the Soviets would be able to make purchases on the U.S. grain market on the same basis as other foreign buyers. We have agricultural trade agreements only with the USSR, China and Mexico; all other customers buy our grain without any official framework.

Q. You were asked in the hearings as to why no PL 480 program rice allocations have been completed to date, although approximately 262,000 tons have been authorized for allocation. As you know, there is a particularly large surplus of rice this year and any amount exported will reduce the amount the Government may take over under the loan program. You responded that efforts are being made to this end. Please list the countries with which such arrangements are being completed and when you expect that this will be accomplished. I am informed last year at this time over 140,000 tons had been programed.

A. The Department of State has been working with the Department of Agriculture and the other interested agencies to maximize the programing of rice wherever feasible.

Thus far, agreements have been signed or are in negotiation which include about 145,000 tons of rice for Bangladesh, Kenya, Liberia, Mauritius and Peru. Agreements are in process for Guinea, Haiti, Jamaica, Senegal, Somalia, and Zambia which include over 85,000 tons, and additional programs are under discussion.

With six months remaining in the program year, we will continue to look closely at all program requests with a view toward including more rice.

Q. What is the policy of the United States on providing the benefits of the short term credit program to China or providing PL 480 assistance to China if that should become necessary to open that market further?

A. While the Agricultural Trade Act of 1978 permits the extension of CCC credit guarantees to China and the mechanics of such financing have been discussed with that country, it has made no request thus far.

Concerning PL 480, there is a possible legal bar to providing such assistance to China. The FY 1983 Foreign Assistance Authorization Act, submitted to the Congress on March 10, contains an Administration proposal to clarify that China is not, in principle, ineligible for consideration for PL 480. This proposal stems from the President's decision last June to amend U.S. laws which group China with the Soviet Bloc and which are no longer consistent with our strategic relationship. This is another step in moving toward treating China as we treat other friendly, non-allied countries.

However, we do not plan to establish a PL 480 program with China. Instead of focusing on aid, the Administration has been concentrating on developing a sound trade relationship with China. In agriculture, for example, China's purchases of U.S. agricultural commodities have risen from $64 million in 1977 to over $2 billion last year. Also, there is now in place a four-year grain agreement which provides for minimum annual commercial imports by China of six million tons.

Q: What is the record of repayments on CCC direct credits and credits extended under the CCC loan guarantee program? What is the current status of the loan guarantee program with respect to Poland and Romania? Does the United States expect to continue to make payments to United States banks to cover past due accounts? If so, for what period? Will the United States require notice of default? Does the current procedure comport with the provisions of the outstanding regulations? Please explain current Government policy as to these accounts.

A: USDA will provide the committee with answers to the questions specifically regarding the CCC credit program.

Q: What is current policy regarding the extension of new guaranteed credits to Romania?

A: The President has decided that, in light of the sharp deterioration of Romania's financial situation, the U.S. will not extend credit guarantees to that country. We are encouraging the Government of Romania to take the measures necessary to get its economic house in order.

Q: I understand that some banks apparently are not willing to participate in the credit guarantee program with only 6 percent interest guaranteed, in light of current interest rates and the Polish debt situation. The banks apparently are examining applications more closely and have reportedly turned some countries down. Is this a correct report? If so, what plans does the Administration have to cope with this situation?

A: Some banks were reluctant to make loans to Poland under Commodity Credit Corporation guarantees in 1981 due to the large gap between the 6 percentage points of interest guaranteed by the CCC and much higher market interest rates. In some cases, banks went ahead. However, on CCC guaranteed loans totaling $100 million, the banks required from Poland payment in cash of the entire non-guaranteed interest upon signature of the loan agreements.

With the imposition of martial law in Poland on December 13, 1981, the U.S. suspended all official credits and guarantees to the Government of Poland. As the political situation in Poland has not evolved to the point where the U.S. would again consider extending new loan guarantees, possible private bank reluctance to participation in the guarantee program is not presently an issue.

Q: As you know, the United States is losing customers abroad because of doubts as to whether it can be considered a reliable supplier, given the embargoes in recent years. There have been mixed signals at times from this Administration as to whether an embargo was imminent. Can we provide any guarantees to our foreign customers that if they contract for the purchase of agricultural commodities, in the unlikely event an embargo may be imposed, the contracts will be honored?

A: In recent weeks the Administration's position on agricultural embargoes has been further clarified. In his remarks to a group of farm editors March 22, the President described the adverse impact of the last embargo on our farm community, and stated that he would not use farm exports as an instrument of foreign policy except in extreme circumstances and as part of a broader embargo. Secretary Haig is also well aware of the problems of a unilateral grain embargo, which he has described as self-defeating and sterile.

With regard to specific contract guarantees, this Administration understands the great importance of agriculture to our nation's economy, and is committed to boosting the position of the U.S. as an agricultural exporter. We certainly recognize the need to be seen as a reliable supplier by our trading partners. However, the President would have to consider carefully how much he would be willing to limit his flexibility in this area.

Q: The Agriculture and Food Act of 1981 requires that sugar processed from sugarcane and beets from the date of enactment of the Act through March 31, 1982, must be supported through purchases at a level which approximates a raw sugar price of 16.75 cents per pound. To assist in implementing this law import fees under Section 22 were announced on December 23, 1981, which would result in a market stabilization price of 19.08 cents per pound. This price consists of the 16.75 cents purchase price, plus 2.33 cents to cover freight costs, related marketing costs and other factors. Today's Wall Street Journal shows a domestic spot sugar price of 17 cents per pound. What reason do you ascribe to the fact that the spot price is now below the market stabilization price? Will further Section 22 action be required to meet the price objective?

A: The domestic spot price (the so-called New York No. 12 price on raw bulk sugar, duty and fee paid) was between 17 and 18 cents as of late March, 1982. It has not yet reached the current market stabilization price of 19.08 cents per pound for a number of reasons. Among these is the surge of raw sugar imports in late 1981 aimed at entering the U.S. before the President's imposition of higher duties and fees on December 23, 1981. There appears also to have been increased imports of duty-free raw sugar in recent weeks from foreign sources whose shipments of sugar to us in 1981 exceeded the GSP Competitive Need dollar limit and will therefore lose duty-free GSP treatment for this product as of April 1, 1982. Finally, general economic conditions, continued high interest rates and weather in the U.S. in recent months have all tended to depress activity in our domestic sugar market.

As announced by the Secretary of Agriculture in late March, Section 22 fees on raw sugar imports will be raised to 3.07 cents per pound for the second quarter of 1982. Further adjustment of the fee level will be taken in accordance with Proclamation 4887 or applicable successor proclamations which may be issued in the future.

Caribbean Initiative

(1) Q: The President recently announced his plans for a Caribbean initiative. Under the announcement it was indicated that sugar imports from Caribbean countries will receive duty-free treatment. The initiative will result in sugar entering this country from three countries that do not now receive such treatment, including the Dominican Republic which is the largest exporter of sugar to the United States. What does the United States Government plan to do to protect the domestic price support program?

A: Sugar, like all other products except textiles and apparel, is included in the proposed Free Trade Area (FTA). However, for as long as there is a domestic sugar support program, duty-free imports of sugar from Basin countries would be subject to limits to ensure that the domestic program operates as intended.

The main features of this special regime for sugar will be:

-- The three Basin countries (the Dominican Republic, Guatemala, Panama) which are not now granted duty-free entry for their sugar under the Generalized System of Preferences (GSP) would each receive an absolute, duty-free quota based on approximately 110 percent of their historical shipments to the U.S. This level is calculated as the average of the highest two years of the period 1979-81. This gives quotas for the three countries as follows:

Dominican Republic	780,000 MT
Guatemala	210,000 MT
Panama	160,000 MT

-- Shipments from other Basin exporters of sugar would continue to be duty free, without new limits but under GSP rules, as at present. (The GSP provides that if imports of a product from any GSP country exceed a certain value, the normal duty is reimposed the following year. The present value limitation is $50.9 million and is revised annually to reflect nominal growth in the U.S. GSP.) These countries' GSP rights and limits would become part of the proposed Free Trade Area and would thus be preserved for the entire 12-year life of the FTA. These countries also would have the option of requesting absolute, duty-free quotas instead of GSP treatment. The President, upon recommendation of the Secretary of Agriculture, could grant such quotas based in part on historical performance.

-- All non-Basin sugar exporters would continue to be able to ship to the U.S. in the open market with no individual quota restrictions.

-- The President, upon recommendation of the Secretary of Agriculture, would have explicit authority to reduce or remove all duty exemptions on sugar, if necessary to protect a U.S. domestic price support program. Existing Section 22 fee authority would also be available to protect U.S. price supports for sugar; as at present, Section 22 fees would be imposed in a manner so as to minimize the effect on consumer prices in the U.S.

These measures are intended to help ensure that the development of these relatively small economies is not frustrated by low world prices for sugar. However, it should be stressed that the objective of the Initiative, overall, is to encourage diversification of these economies away from traditional raw material exports such as sugar and into manufactured and processed products. Therefore, the United States expects that sugar production will not grow significantly in the Basin countries and that our other traditional suppliers outside the Basin will retain an important share of the U.S. sugar market.

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